GROWTH CONFERENCE *on the* MASSACHUSETTS ECONOMY

hosted by

Governor William F. Weld   Senator John F. Kerry

January 28, 1991

World Trade Center
Boston, Massachusetts

March 13, 1991

Dear Friend:

As you are aware, on January 28, 1991 we jointly sponsored a day-long conference on the state of the Massachusetts economy. We are pleased now to make available this record of the proceedings of the conference.

Few residents of Massachusetts would dispute the need to revitalize our state's economy and create new jobs and new incomes for our people. The two of us decided to join forces in sponsoring the January 28 conference because of our shared belief that there is overwhelming, bipartisan support for action by government and other institutions that will support job-creation in the private sector.

The real question, of course, is what kind of action is both necessary and effective to support growth in the private sector. The January 28th conference brought to the surface a number of opinions and ideas--some conflicting, many of them not.

The conference proceedings record this great diversity of ideas; our task now is to take action. The Governor's staff is already evaluating the ideas you generated at the conference and is assessing what can be implemented. Senator Kerry's office will begin a series of Senate Banking Committee hearings on congressional action at that time as well.

We are indebted to all of our conference moderators and speakers for their time and thoughtfulness, including Deputy Secretary of the Treasury John Robson, Federal Reserve Governor John LaWare, and Senator Edward Kennedy.

We are particularly grateful to our three conference organizers: Secretary of Economic Affairs Daniel Gregory, former U.S. Senator Paul Tsongas, and Paul O'Brien, President and Chief Executive Officer of New England Telephone.

Paul O'Brien's New England Telephone staff organized the conference logistics and is responsible for the publication of this document. We could not have staged the conference without them, and we thank them all.

Sincerely,

Bill Weld

William F. Weld
Governor

John F. Kerry
U.S. Senator

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OPENING REMARKS

Mr. Daniel S. Gregory
Secretary of Economic Affairs

To start this conference, it is appropriate that we should be welcomed here today by the Mayor of Boston, Mayor Raymond Flynn, not only because we are in his city, but because of the pivotal role Boston has played, and will play, in the well-being of the Commonwealth. Mayor Flynn.

Mayor Raymond L. Flynn
City of Boston

Good morning, and let me welcome you all to the city of Boston. Let me also express my support for the effort that is being made by people from across the Commonwealth of Massachusetts to try to move forward and to come up with a bold creative approach, a new agenda for dealing with the significant concerns of the economy in Massachusetts.

These are going to be really challenging times for us. I think that new approaches to the way we do business in Massachusetts, including a working relationship between government and the private sector, are going to require all of our undivided efforts and attention. Massachusetts and the city of Boston have always had a record of close cooperative ties and working relationships in the past. But I think in light of what is

happening now across the world, in the state and national governments, it's going to require an even more concerted effort in the future.

While we are really focusing on stimulating the economy of Massachusetts, I would add one point of concern, from a standpoint of the capital city. Boston is very much prepared to continue to be the economic engine that helps drive the economy of Massachusetts and the region. But, we also have to be mindful of the fact that a city that does not have strong, healthy, and vibrant neighborhoods is a city that is not going to be able to contribute its share to the economy of Massachusetts. So, I hope that we can continue to focus on issues--not only on the expansion of the economic base, but also on some of the systemic problems of poverty, underemployment, and unemployment. Those are going to be major challenges for all of us in the years ahead.

There are projects out there that I am sure will be discussed here at length, projects that will have a significant impact on the entire regional economy if we are to move forward on them in Boston. They will get people empowered, get people feeling good about themselves and their state once again.

So, today is a new beginning in people's attitudes on what is happening in the Commonwealth of Massachusetts. I want to stress that point because it is so very important. If the message is doom and gloom, it almost becomes a self-fulfilling prophecy. Yes, there are serious economic problems, but there are no problems that I have experienced in over

twenty-one years of holding public office in this state that cannot be solved when people work together. You are seeing a bipartisan effort here today. You are seeing an effort of business, government, community, and academic leaders. I think it really indicates, in no uncertain terms, that the will is there and there is in fact a feeling of cooperation, *esprit de corps*, and of people wanting to come together and make things happen.

Let me now turn the program over to Bill Weld, the Governor of the Commonwealth of Massachusetts. I feel very confident that the Governor has the right attitude, the right disposition, and the right vision of where this state has to go. Bill Weld is somebody that I have worked with for a long period of time. I find him to be extraordinarily honest. He is somebody who is tremendously committed to working together with others. His effort is not going to be the kind that people are going to watch and criticize. People are going to work with Bill Weld and try to make him one of Massachusetts' finest governors.

I want Bill and his Lieutenant Governor, Paul Cellucci, to know that as far as Boston is concerned, we are in their corner and will work with them to ensure that Massachusetts addresses the issue of the economy and emerges from this even stronger than before.

Bill Weld, along with Senator Kerry, had the vision of bringing us together, and I want to thank them. Somebody said, "Isn't it a little bit too early in the Weld administration to bring us together?" Actually, as this new administration formulates opinions, I think it is an extremely important, appropriate time to bring us all together so that he, as the leader in

the state of Massachusetts, can show the kind of direction that Massachusetts critically needs.

So, with that, let me introduce the Governor of the Commonwealth of Massachusetts, Bill Weld.

Governor William F. Weld
Commonwealth of Massachusetts

Thank you very much, Mayor Flynn. I want to thank Senator John Kerry, who had the idea for this conference. Dan Gregory, Paul O'Brien, and Paul Tsongas did all the work, but John Kerry was the father of the idea. Again, I want to thank Ray for his warm welcome.

These are somewhat tough times as Mayor Flynn mentioned a moment ago. But I can pledge to you that so far as we're able to articulate a pro-business, pro-jobs, pro-growth agenda--within reasonable limits of course--we will follow it at the state level. That runs the gamut from tax policy to spending decisions to regulatory policy. As many of you know, I've said that our budget documents for both '91 and '92 are going to propose and assume the repeal of the sales tax on services, which I view as an anti-business, anti-investment measure. Our '92 budget submission will very likely include some form of capital gains holiday for long-term productive assets held more than five years by Massachusetts businesses, which pay taxes and employ people here. If people have to dispose of such an asset to put their kids through college or for whatever reason, I think they should not be subject to capital gains tax on the occurrence of that transaction. I'm looking forward to the day when we can triple the investment tax credit, when we can enact a separate free-standing research and development tax credit in this state. All of these measures are incentives to investment in the state. We're certainly looking at the idea of an export tax credit as well.

In terms of fiscal policy--meaning spending decisions--we're going to try to emphasize the investment side of the ledger: education, transportation/infrastructure, all the expenditures that we would have to make to be able to compete in this increasingly globally competitive economy as a world-class marketplace. It's my hope that if we do pursue these policies and stick to them for a period of years, we may one day in the not too far distant future be able to claim the status of being the capital of the Atlantic rim.

On the micro level, within domestic policy, I've said for some time that we need to roll back some of the regulatory structure that operates as a burden on our businesses. This goes from mandates such as the $1,680 per employee requirement of the Universal Health Care Law, to the indirect mandates of excessively high workers' compensation premiums and unemployment insurance premiums, to the costs caused by the state not paying attention to lowering the burden on business in the environmental area. Although I consider myself a very strong environmentalist, we are going to examine whether or not some regulations are process driven, rather than driven by the bottom line of environmental protection. When we find such regulations, we're going to roll them back.

One example I have referred to in the past is the requirement that landowners secure a permit before they can clean up a Chapter 21E State Superfund polluted hazardous waste site. It can take up to ten months to get either such a permit or a waiver of such a permit. Meantime, you're killed by the carrying costs of your property, which you can't clean up

and develop. And it seems to me that's an example of the type of regulation that is counterproductive.

Probably no area is more important economically right now than the availability of capital to fuel the recovery in this state. I think we need to be sympathetic here to the plight of the banking industry. I've talked with Bill Seidman and others about the regulatory context in which the banks have to operate, and the possible desirability of valuing some of their real estate portfolio at a reasonable market value of those loans taken over for a reasonable period of time, rather that a spot valuation of what the market is today when there is no market, which can cause banks to have to write down loans almost to zero value when they're not fundamentally unsound.

Beyond dealing with the problems of the banks, one idea that I hope will be developed today is the possibility of alternative pools of capital to fuel our recovery. The other New England governors and I have spoken with Chairman Seidman of the FDIC about his idea of matching some FDIC money (to be financed through premiums on the banks) with private capital, which would then be available to shore up institutions that are not yet at the failure point but that are under pressure, somewhat distressed institutions. And he indicated he's in this to make a buck, not to fritter away the FDIC funds involved. This led one wag at our meeting to say, "Chairman Seidman, we know you have to be like Caesar's wife, having the position you do in Washington, but do you really have to be like Pharaoh's daughter?" He said, "What do you mean?" The wag said, "You're trying to take a little

profit from the rushes on the banks." But it is an interesting idea, I think the public/private marriage of capital to slot that capital into the system. It's highly interesting to me, and I've gotten some nibbles from the banking community and from others for this idea. Nibbles in the hundreds of millions of dollars. I've also gotten a few nibbles in the last couple of weeks along the lines of, "Hey Gov, are you gonna be chartering any more state banks, because I've got ten, twenty million dollars burning a hole in my pocket, and you know there's a lot of good lending opportunities that are going begging out there because there's not the liquidity in the system now that there should be." To me that's a very hopeful sign of spring, that smart money is recognizing there are lending opportunities which should be cashed in on which are not being cashed in on. And that smart money, if it entered that system, could establish a market niche that would represent real value in a couple of years, when we get out of the economic woods.

So in the area of availability of capital, I do plan to be active and involved. I plan also to take an activist, interventionist role with respect to some of the major projects that are on the table for the Commonwealth of Massachusetts, including the artery tunnel project. If there's a good and sufficient reason for that project to fall off the table, fine. But it's not going to be through inattention or because we slid into a situation where the threat of a lawsuit caused us to back off from the project. Finally, I plan to raise our profile somewhat in terms of dealing with Washington. And this is one reason why I am so grateful to Senator Kerry for coming up with and advancing the idea of this conference. I do think that in the past, the New England governors, both individually and as a group, have perhaps not

done as much as we might have in tandem with our delegation in Washington, where we have a lot of savvy and a lot of seniority. Certainly the committees that Senator Kerry is on position him perfectly to advance the economic interests of the Commonwealth in matters such as tax policy, export policy, or the legislation that he filed last year to make it easier for us to market high-tech equipment in Eastern Europe, for example. That's the sort of notion that could have a substantial impact on the Route 128, Route 495 economy. Today, I suggest we need to generate ideas of that level of specificity which we can then jointly put our shoulder behind. And there's enough muscle in the delegation, so that if we do that, we can reasonably anticipate having an influence on policy at the national level. So I'm grateful to Senator Kerry for having this brainchild of an idea, and I hope nobody will be bashful today in terms of putting ideas on the table, because certainly the will is there. Both of us are willing to carry them into execution if we can simply get the issues framed and the steps that need to be taken by government at both the state and federal level. And speaking of the federal level, it's my pleasure now to introduce to you my friend and classmate, Senator John Kerry.

Senator John F. Kerry
United States Senate

Thank you very much, Bill. I'm delighted to accept the role of father, and if I am father and Paul Tsongas, Paul O'Brien and Dan Gregory are the mother, I guess that makes you midwife or something but we're glad to have you here.

I want to thank everybody for taking the time out of hectic and increasingly pressured schedules to join us here today. I was asked by several people at the beginning of this conference, "You know, I hope we can get something out of this, I hope this is positive." And I suggested in response to that hope that the answer to it really lies with all of you. There have been moments in the past months when people have said to me, "We've got to break through. We've got to begin to create a new atmosphere." And it occurred to me that the best way to do that is to harness the remarkable creative talent of the Commonwealth of Massachusetts. We're known throughout the world as the center of brainpower. And if we can't bring that brainpower together in an effort to make the best of a bad situation, then we don't deserve the leadership roles that any of us are in. And I like to think that we do deserve them.

This is an important gathering in that context. It's important because all of you represent significant elements of the economic mosaic of this state. But I think it's more important for a number of other reasons. It's important because it's our opportunity to have a very frank, open, broad exchange, which could lead to some new initiatives, and which can

help to break down the barriers of resistance that exist in this state. For all of us in government, that can be a dialogue with very real results, providing we maximize the opportunity to have an open discussion and that you don't hold back.

Let me emphasize also in answer to the question, "What do we get out of this?" that this is a beginning. Nobody should expect more of it than the fact that it is a beginning of a new effort. And there's a lot of resistance to break down. Obviously, we can't solve all the problems here today. We can't even begin to complete the setting of the agenda, as full as it is today. We can make it clear to the citizens of Massachusetts that the political leadership of this state is determined to work hand in hand in an effort to draw the best of the creative talent of this state and to maximize our efforts to get this state back on its feet.

The economic survey that was taken just last week by Marttila and Kiley for the Massachusetts Hospital Association underscores the importance of our doing what I just set out. Let me share a couple of observations with you from that study. It documents how critical it is for us to come together and to pull together.

Fully 85 percent of the citizens of Massachusetts today say that the state is in a recession; 78 percent of all voters are citing unemployment and the lack of jobs as a problem that they are seriously worrying about. More than half of all the families surveyed have put off making major purchases for now. One citizen in four has already taken a second job, and almost one-third have a family member who is thinking of moving to another state.

These statistics underscore how it's the pessimistic attitude as much as anything else that we have to break through. Part of that turnaround is going to depend on economic choices, macro and micro. But a significant part of it, I am convinced, will depend on political choices. For too long in this state, there has been a perception of either personal ambition or partisan bickering getting in the way of the real important business of this state. Words alone are obviously not going to wipe away all of that. They can't. But my hope is that Bill and I and others, lay leadership and elected political leadership together can exert the leadership that is going to change the environment and provide a climate for cooperation and ultimately for progress. That's one thing that can come out of this.

Secondly, the leaders of the business community and the political community can start to focus on the extraordinary assets of the Commonwealth of Massachusetts. And we can lay out a strategy that plays to our strengths, of which there are obviously many. We can put behind us the negativism that seems to consume so many, and begin to exude a confidence that is not misplaced in our ability to make things better in the future.

Now, it's worthwhile to stop for a moment and think about those positive assets--the remarkable base of our economy, which literally has been the envy of other states and even of other countries across the globe. We've got the finest network of colleges and universities anywhere in the world. We have an extraordinary research and development base. We have a remarkable health care research delivery system. We have a huge center for the management of private capital and the delivery of other sophisticated services. We've got a

core of defense-related industry which, even with the changes in the world--or perhaps even because of the changes in the world--can become more rather than less important. Witness the extraordinary success of Raytheon's Patriot missiles. We have a totally underutilized and undermarketed tourism and trade capacity. We have a sophisticated high-technology manufacturing base. We are, in the private sector, as diverse and as competent as any state in the country. And frankly, we ought to get about the business of competing with those states with the pride and the ability that we have.

Given the economic turn here, we are now able to offer to the rest of the country a labor pool that will be less costly, as well as a housing market that is significantly more competitive than it's ever been before. And while other fast-growth states are suddenly going to be emerging with a huge new demand for services--most important, water and education--we already have a base with respect to those; and ours are issues far more of quality than issues of availability. So if you're looking for immediate fixes and for an ability to move the system rapidly to respond, ours is a future that is in many ways filled with more ability to respond quickly and meaningfully to take advantage of change, despite our current problems.

To that end, we've got to build a better public and private partnership. Massachusetts has to take intense efforts--extra efforts--to become known both nationally and internationally as a business-friendly state. The last ten years or so, and particularly the last two years, have seen an extraordinary paralysis--a kind of chaos--both at the national and at the local

level. That has done us enormous damage. You obviously don't have to be a rocket scientist to understand that for a business looking to relocate or for a business looking to expand, the kind of chaos or political indecision, or the frequent changes in the rules, or the inequality in the playing field all act against our best interests. So whether it's one stop shopping capacity, or whether it's streamlining decision making, or whether it's creating state and local incentives that help make us competitive, we have got to respond to the new realities of the new marketplace. We've got to be more willing, or at least equally willing, to undertake the kinds of steps to make it attractive for people to do business. And we may even have to give up some short-term desires in the effort to meet some of those longer-term goals.

Now, quickly I will observe that there are some current aspects of this economic downturn that are different from what we've seen before. Different in a number of respects: contracting money supply at the same time as you have diminishing interest rates, an implosion in certain industries simultaneously, and so forth. And those are obviously troubling. But the hard fact is simple for mature people to deal with. This is the hand that we've been dealt, and it doesn't make a lot of sense for those of us who aren't going anywhere to spend our time complaining about it. It makes a lot more sense to get about the business of changing it and responding to it.

Now, that doesn't mean that everybody's going to agree on everything. Obviously we're not. It doesn't mean that every aspect of Bill's budget is going to meet with

resounding approval. It doesn't mean that ideology is suddenly going to disappear. But I'll tell you what it does mean. It means that we can see to it that political leadership is genuinely offered. It means that decisions can at least be made and not avoided. It means that the rules by which we do business don't have to change so repeatedly and significantly. It means that the broader interests of our state can be put ahead of the narrow parochialism that seems to assert itself so frequently.

We're here today because the state of our economy is disturbing, and to some, downright frightening. Particularly to those who have lost homes, or who cannot sell their homes, or who are sitting there with thousands of square feet of unleasable office space, or with large inventories that are unsellable. And we ask ourselves how this has happened. Are we merely in the midst of a cyclical downturn, or is something wrong with our fundamentals? Is it simply too expensive to do business in Massachusetts? Have we forgotten how to innovate, as we did so well in the '70s and '80s? Well, the answers to these questions are really what's on the table here today. And they will say an awful lot about the choices that all of us face over these next months.

If you take the position, as some do, that the most critical problem we face is that we're overregulated and overtaxed, then the implication is that we cannot compete until our costs go down, beginning with the taxes that others say are essential to provide basic services.

Alternatively, other people say, "Well, we're just really in a cyclical regional downturn. And all you have to do is slug through it." The implication of this is that you focus your efforts not so much on lowering costs. After all, New Hampshire, a low-tax state, is in every bit as much trouble, if not more, than we're in. These people suggest that you ought to be working to prevent a brain drain. To prevent the people who are suddenly desperate from going away, so when we do turn things around we don't find that the labor pool and the creative talent that we need are suddenly gone.

Others suggest the most critical problem has been the loss of our competitive edge; that over the past decade, for various reasons, a number of companies simply didn't make the decisions that they should have to maintain a technological lead over the rest of the world. If that's true, then the critical issue becomes neither cutting costs nor servicing the base, but perhaps creating policies that excite innovation and deal with capital formation. Well, obviously I think everybody here is wise enough to share a belief that no one diagnosis has a monopoly on wisdom or rectitude. We probably need a combination of each and every one of those elements and each of those approaches, in order to rebuild. No business can take the position that costs don't count, and the state can't either. Likewise, the state can't take the position that some social safety net and a standard of living aren't of concern in order to keep the talent here, and business shouldn't either. And obviously the future does belong to whoever is a leader in innovation and in increasing productivity.

So, what do we do to reconcile approaches that I think are only contradictory when they're really taken to the extreme? How do you drive down costs without driving out workers? How do you help businesses develop the greatest value added without losing our workers at the same time, or their ability to compete? That is precisely what Bill and I want this conference to be about. There's an enormous amount of talent gathered in this room. There is a great ability to begin to set this agenda. I'm convinced that we can do a great deal. We can upgrade our tourism, we can create incentives for research and development, and encourage growth.

It's interesting. I introduced legislation at the federal level, very similar to what Bill was talking about, which goes as low as a 5 percent tax on capital gains, with varied holding periods, five to ten years with a graded tax according to the length of holding period, and according to the amount of initial investment for a new startup. We obviously need to encourage real risk taking, venture startups that create jobs and create new wealth. We can clearly use our education network extensively and creatively, much more so than we have. We can learn how to better take products from laboratory to market. We can reduce the cost of capital. I'm positive that all of these things can be done, but the real question is whether we will create the energy to do so. I had a professor of history at Yale who left me with one enduring phrase. He said that all politics is a reaction to felt needs. And indeed, if you examine how politics works, that's true. When people feel the need, they tend to get up off their rear end and organize and create the kind of movement that makes things happen, whether it's a war on drugs or whether it's a war on poverty, or whether it's an effort

against Saddam Hussein. It seems to me that what we've got to get out of this conference is to recognize the felt need and create the energy that comes out of that felt need so that we respond to it. Now, I'm a federal office holder, and there are obviously some key things we can do at the federal level. Secretary Robson is under some time pressure, and I'm not going to go into all of those, because we want to get him out on time and keep the conference moving.

But let me just quickly summarize a couple of them. First, we can obviously do the thing that is most important that will relieve pressure on manufacturers, on real estate, on banks, and on those who are just teetering on that line right now, who are under such intense pressure. And that is to recognize what some of us have been fighting with Alan Greenspan about for more than a few years now: the need to lower interest rates. The federal government must own up to its responsibility with respect to the deficit. Regardless, last year's budget allows those rates to come down more than they have. And nothing would do more to provide us the immediate breathing space that we need to get on the road to recovery.

I hope that one of the outgrowths of this conference will be an ongoing working group, and I encourage those of you who'd like to be part of it to help put together an international marketing strategy for Massachusetts.

I personally intend to lead a couple of trade missions to both the Far East and Europe, and I look forward to those of you who'd like to participate, because we have enormous untapped opportunities with respect to the export trade business, well beyond what we have already achieved.

Needless to say, the federal government can do an enormous amount more to create incentives for investment into plants and equipment, infrastructure, to make the R&D tax credit permanent, to excite the capital that we've talked about, to do some of the cyclical recessionary battle efforts that are so much a part of the big dig and the artery, the fast train to New York, and other development efforts that we ought to be making. And I think all of those are vital.

Finally, I will just say to you that we ought to change some of the antitrust laws as well as the banking laws to reflect the changes in the market. The Fed and the courts are far ahead of the Congress, and it seems critical that we recognize better the playing field that we're on and make changes rather than just talk about them. As a result of a meeting that Senator Dodd and I had with the New England Council last week, with a number of bankers from New England, we are pulling together the New England Congressional Caucus within a matter of days. And we have secured an agreement from Secretary Brady to meet with us. We intend in the next few days to argue again, even more forcefully, about the need to have a more sensitive approach to the current credit crunch problems that we face, and to further articulate the enormous difference between New England and Texas. Bill mentioned the

question of how we value real estate, and the accrual-nonaccrual issue will be very much on the table at that meeting. I suspect that we can make some progress and begin to alleviate some of the pressure that people are feeling with respect to that.

So there's an enormous amount that we can do. And we need to get on with the business of doing it. Again, I want to express my gratitude to Bill Weld for joining together with me in the early days of his administration. It just seems to me that nothing is more important than that the citizens of this state see the political leadership willing to join hands, willing to put the past behind us, willing to try to draw the best and obviously fighting for the things we believe in, but simultaneously understanding that there's an enormous amount of common ground. And we're people of good common sense who understand that the bottom line is the service to the citizens of this state and our ability to have a strong economy, a strong tax base, without which we will do none of the other things that we think about or dream about.

My final comment is that the war in the Persian Gulf is very much on all of our minds; it ought to be. It can't help but be. While extraordinary young men and women are over in the Gulf fighting for us, it is appropriate that we assemble the best of our energies and talents to fight for them, to guarantee that when they return here, they have an economy that is functioning, they have jobs, and they have opportunities. And I look forward to working with every single one of you here to make sure that that's a reality. Thank you very much.

THE CREDIT CRUNCH and the MASSACHUSETTS ECONOMY

The Symposium Moderated by the Secretary of Economic Affairs

An Overview: Mr. Daniel S. Gregory

[Note: The morning plenary session focused on the state of the Massachusetts economy in general, and more specifically, the predicament of the banking industry and the consequent implications for business recovery in the state.]

I deliberately chose to focus the plenary session on the banking and credit issues because of my strong belief that the credit crunch is perhaps the most serious immediate threat to a recovery, apart from restoration of fiscal balance in the Commonwealth. Clearly, market conditions will be chiefly responsible for the restoration of stability in the regional banking systems, and thus for the restoration of credit. However, it is very important that state government, the state's banking industry, and the business community at large come together as much as possible in support of practical, immediate measures that will help restore confidence and stability in our banks.

I believe that the business community is ready to pull together a series of new measures for practical regulatory reform and that the federal government is ready to listen.

The federal government is represented by Deputy Secretary of the Treasury John E. Robson. Deputy Secretary Robson was appointed by President Bush and confirmed by the Senate in May 1989 as the second-ranking official of the Treasury. Prior to this, he was Dean and Professor of Management at Emory University School of Business in Atlanta. Mr. Robson joined G.D. Searle and Company in 1977, and served as Searle's president and CEO from 1982 until 1985. He also served as chairman of the Civil Aeronautics Board under President Ford.

Joining Mr. Robson as a speaker is Richard Syron, president of the Federal Reserve Bank of Boston. Mr. Syron became president of the Boston Federal Reserve in January 1989. Prior to his appointment he served as president of the Federal Home Loan Bank Board of Boston from January 1986. Mr. Syron also served as Deputy Assistant Secretary and Acting Assistant Secretary of the Treasury for Economic Policy in 1979-80, and as assistant to Federal Reserve Chairman Paul Volcker in 1981-82.

Serving as panelists for our session are William Crozier, President and CEO of BayBanks since 1984; John Gould, President and CEO of Associated Industries of Massachusetts, the state's manufacturing association; Joseph C. Faherty, the recently-elected President of the 4,000 member Massachusetts AFL-CIO; Sara Johnson, Managing Economist for the eastern regions of the economic forecasting firm of DRI McGraw-Hill; and Mitchell Kertzman, former National Chairman of the American Electronics Association and President of the Powersoft Corporation, an applications software firm in Burlington.

Mr. John Edwin Robson
Deputy Secretary of the Treasury

Thank you, Dan, Senator Kerry, Mayor Flynn, Governor Weld. Thank you for inviting me here today for a timely and useful conference that I hope will accomplish the important objectives that you have laid out.

I come here at a time when it is very clear that the performance of our banking system and our economy is not satisfactory. The economic data speak for themselves, and as you recently saw, we've had a downturn in the economy in the fourth quarter of 1990, and we are in tough times. We do, however, expect to see that slope go upward in the middle of this year.

We also have a situation in the banking sector that I think is cause for concern: a rate of bank failures that is worrisome, and pressure on the bank insurance fund, which pays the depositors in bank failures that have brought the assets of that fund down to about eight or nine billion dollars at the moment, and which is slated to drop down to four billion this year. That is getting to a point where you don't have an adequate cushion to deal with that problem. Banks are under pressure. There are increased substandard loans, particularly in the area of real estate, and this is putting pressure on banks to contract their activity and to shrink their lending. Here and in other places, we've seen the credit crunch that has been occasioned by a variety of causes.

The situation that we confront in our banking industry today is not a rerun of what has happened in the S&L industry. It's not a rerun for several identifiable and important reasons. First, the banking industry has some 200 billion dollars in capital and some tens of billions of dollars in reserves, none of which the S&L industry had before its collapse. Second, the banking industry is better managed. Third, it is better supervised. And fourth, it does not have in it nearly the element of fraud and criminality that we saw come into the S&L industry.

Let me turn now to the credit crunch. It is a matter of great concern to us, and of particular concern to you here in New England. I think that there are multiple causes for it. There is no question that there was a great deal of overbuilding and overleveraging in the 1980s. This has left banks with lower capital than they and the regulators would like, and perhaps lower confidence in their willingness to step forward and make the kinds of loans that are important for banks to keep making. I don't think there's any doubt that the economic situation that we have is in part a product of monetary policy. We've made it known that we think there is ample latitude for the Federal Reserve to move downward, and we have said that on many occasions, indeed, starting nine months to a year ago.

And, finally, there are the regulators. There are many who say that the regulators have been the principal cause for the credit crunch. I have been a federal regulator, and I have run a company that was regulated by federal regulators, so Bo knows regulators. And I will not stand here and say that it is impossible that regulation has had an effect on credit

availability. It has. It has, because when you have six thousand bank examiners out there, you're not going to have every one of them approach their job with balance and understanding. And you're going to have some zealots. And, also, there are policies that I think are examinable and ought to be calibrated against the current situation. We are in the process of doing that.

I have spent a considerable amount of time in the last eight or nine months talking to business people, bankers, consumers, and political leaders from this part of the country. We are listening, and we are trying to act in three different ways. First--and I think this is very important; Senator Kerry touched on it; the Governor and the Mayor touched on it--is the question of confidence, of putting the current situation in perspective. We think that that goes for bankers, too, who cannot step back from their responsibility to make loans--to make loans to people of good character, and who are reliable. They have a responsibility to have a franchise in this economy, and we think that they ought to exercise that franchise in a responsible way. Second, the regulators need to be reminded that balance is important. They cannot step away from their responsibility as regulators, they cannot simply let the thing turn into a free fall. They can approach the job of regulation in a responsible way. They should comprehend that we are in a period of transition, where tolerance can be a useful tool for restoring future economic growth.

The third way we are approaching the current problem is by exploring directly with the regulators a variety of policy actions that can have a potentially beneficial effect. Some

of them were mentioned by earlier speakers, and I am optimistic that we will have in place, in the near future, some policy amendments that will be helpful in creating greater confidence in extending credit.

Fourth, we think it's time to reform the banking system before we do have a crisis. We want to make it stronger, safer and better able to serve all Americans. It's important to have a strong banking system in this country. The banking system is one of the engines of economics, of entrepreneurism, and we think it's been demonstrated over time that you have to have a strong banking system to be a big league player in the global economy. In a short time the Treasury Department will be coming forth with a study on the reform of the banking system, a study we were invited to do by the Congress, and which has been much heralded in the press. That study should be in front of you very soon.

The reforms that we are going to recommend are based on the conviction that the banking system today, and the laws under which it operates, are outdated and inefficient, and that the banking system is neither as financially strong nor as competitive as it needs to be. On the issue of competitiveness, you might bear in mind that of the thirty largest banks in the world, only one is an American bank.

Finally, our reforms rest on the notion that the taxpayer is unnecessarily exposed by the extent of the federal safety net. This has grown from the 1930's notion of protecting the very small depositor when the laws were first passed. But I saw an ad in the paper the other

day at one bank, advertising that a family of three could open twelve accounts of a $100,000 each and have $1,200,000 under insurance.

So as we go forward with these reforms, we have four constituencies in mind. The first is the taxpayer, who ought not to be exposed unnecessarily to the deficiencies of the banking system. We are looking at ways to shrink the safety net, if you will, but to keep it adequate to protect our next constituency. That is the American depositor, who ought to feel that his money is safe, and that he is dealing with institutions that are going to be around for a long time to come. Our third constituency is the banking industry itself. Our banks need to be competitive and financially strong. The banking industry will accomplish this by becoming more efficient and by being able to realize opportunities for growth that it now cannot do because of laws passed fifty years ago. Laws designed for different institutions in a different time in a different marketplace. And finally, our fourth constituency is the nation at large, which will benefit economically from a sound, strong, and competitive banking industry. The time for reform of the banking industry is now. Somebody could argue that it's the worst time, because the banks are under such pressure. I would argue it is the best time, because now we need to take action. As our recommendations are made and you have a chance to study them, I hope that all of you--particularly you, Senator Kerry--will find them sound, useful, and futuristic from the standpoint that we will build back the American role in finance and banking around the world.

Let me return to the theme that has been echoed by all of the speakers who preceded me. And that is one of confidence in the future. I can remember when New England was on the ropes thirty years ago and everyone said, "Oh boy, it's over. Adios New England." When all of the mill towns closed, the textile industry left, the shoe industry left, and everything else cleared out of here. It didn't happen, and New England became the most vibrant economic region of the country. Why? Because its basic assets were there. It has the educational assets, it has the history, it has the cohesion among its people. I spent three years here when I went to law school, and have a special affection for the place. I think I have a feel for it. This part of the world won't go away, this conference will be held and people are going to go out of here feeling like we can beat the future--because you can. You've got the assets to do it, but what you need are some ideas, some action plans, and to the extent that we in the federal government can be helpful in accomplishing that, let us know. Thank you very much, all of you, for having me here.

Mr. Richard Syron, President
Federal Reserve Bank of Boston

When you look at the audience here and the program that's been put together, you are tempted to start out by saying, "Senators, governors, mayors, secretaries, lend me your ear." We may want people to lend more than just their ear, though. And that's the question that we want to turn to.

This is a very important conference. It's very easy, in the beginning of something like this, to approach things in a somewhat cynical vein and ask, "All of this has been talked about before, and what is going to be the result of this? What do we get out of this?" Of course, anyone who is an individual speaker here turns around and asks himself, "What do I add? What is the value-added? What new can be said?"

There are some things that can be said though. And it's particularly important to have this conference at this point in time, because of three issues. They have been alluded to a little bit in the past: the importance of perspective, responsibility, and some prescriptions on where we go from here. And, while it has been alluded to, one cannot over-emphasize the extraordinary importance of doing something to address public confidence in this sector of the country. Not just this state, but this entire sector of the country. We now have a level of anxiety, much of it uncalled for, that really borders on despondency. And it clearly is inappropriate, self-feeding, and corrosive to our own economic well-being.

The question is: What do we do about it? Again, the three issues are: perspective, responsibility, and prescription. With respect to perspective, the first thing we have to do is understand why we are where we are and what's going to turn things around. Now, as far as that goes, the most important thing in looking at Massachusetts is to say, "How did we get here? Was the miracle a miracle, and what is the situation?" I've been quoted as saying--and I think it's absolutely correct--the miracle wasn't a miracle, it was an apparition. And for those of you who have some Jesuit or other training of that inclination, you will know that an apparition is something that appears to be one thing, but is really a result of a combination of ingredients that create an entirely different impression. What really happened in Massachusetts is that we had, for a significant period of time, a quite strong recovery in our economy from the 1973-75 recession.

We here in New England and in Massachusetts love to beat ourselves up. After the Celtics and politics, self-abuse has become the third favorite sport. In the 1973-75 recession, alluded to by Secretary Robson, we were sure we were all dying. This business of dying is not new. When I first started to go around and give talks on New England, I went back and read some of the literature, such as it was at the time. And, I found the first forecast of New England saying that New England's long-term economic prospect was inevitably to provide the labor and the capital to populate and to finance the Southwest. That was a quote from a Massachusetts Congressman in 1793. So we have had a great number of deaths! To the point where funeral parlors for the economy should be our biggest industry.

What happened was that, coming out of the 1973-75 recession, we had very strong growth. This was fueled in large measure by advances in the high tech industry that were bringing us to where we needed to be, in terms of having an economic base for the future. However, for one reason or another--and that is a whole separate issue one can get into independently--we had sustained what can only be called in retrospect a "real estate bubble," superimposed on that basic economic recovery. At the time our basic economy was starting to stabilize, about 1985 or 1986, we had this enormous takeoff in real estate. The favorite topic of cocktail conversation at that point was, "Well, I bought for $180 and now I can get $270, but I'm not selling because in three months I'll be able to get $350."

There's only one problem with all of that. How do you attract new labor here when someone comes and says, "If I get a real good job and my wife and I work all the time, with a little luck in three or four years we may be able to save the down payment on a two-bedroom condominium that's an hour-and-forty-minute commute from downtown Boston." And then he thinks, "Maybe that job in Indianapolis looks a little better after all." We had a tremendous escalation in costs, because of the superimposition of this real estate bubble on top of a fundamental economic recovery. And that escalation in costs also affects relative wages. Relative wages in Massachusetts have gone from slightly above the national average 1973-75, to greatly above the national average more recently. So all of these factors contributed to making us a much less competitive place to be.

I also think--and I must say, you have to take this as a gratuitous remark on my part--in the process of doing that, we lost some of our fundamental values. We were well on our way to becoming the Yuppie capital of the United States. When every second car you look at on the Mass. Pike is a BMW 535i with a cellular telephone, I think it tells you something. We were becoming a society of those that were economically well-off and those that served them. There's something wrong with a nation in which you can go into a place in Copley Square and spend the same amount of money for a scarf that you can get five or six people killed for a half dozen blocks further in. And that's something that man has to live with every day.

So, despite our obviously difficult transition, it's not entirely bad that some of this correction, if you want to take it that way, is going on. Now, of course, the issue is, what's the forecast going forward? Well, conceptually, think of our economy as two pieces.

One piece is the fundamental, underlying economy, which is what this conference is here to address, and what it needs to address. An important part of that is a new direction in the approach that we're taking in dealing with business here. Reference was given to the Martilla-Kiley survey. One finding of that survey was that business cares about having a responsive regulatory climate and feeling that they are in a state where business is respected. And I think we've made that kind of change here. My own view, and I'll come to a forecast in a second, is that that is going to turn around.

At the same time, as another part of analyzing this economic dilemma that we are in, we have a very substantial overhang in real estate. Part of that is related to the credit crunch. I'll turn to that in a second. But added is something more difficult, which is going to be with us, going forward into the future, for a somewhat longer time.

I said the second thing that had to be addressed was responsibility. Unfortunately, particularly in some quarters, there has been a lack of responsibility. It's a natural attraction as human beings to jump up and down and make matters seem worse than they really are. It's very clear that we do have problems in many of our financial institutions here. However, in my mind, the reaction to this throughout our society as a whole has been greatly exaggerated.

We happened to have a very busy weekend at the bank a few weekends ago. I told my wife I'd meet her at a restaurant in Newton on Saturday night on my way home. We stopped to get a hamburger. The fellow in the booth next to me was telling people how he's taking his money out of FDIC-insured institutions and putting it all in the safe in his business. I react with disgust and disdain to anyone calling into question the safety of deposits in federally insured institutions. It's just plain wrong. There are people doing that on talk shows. We have people talking about how you can put your money in Swiss banks. All of this really doesn't make any sense. It may be to the advantage of the people saying it because they are capturing a lot of attention, but it's not responsible. Now is <u>not</u> the time to be encouraging little old ladies, or for that matter strong young men, to withdraw their

money and walk around with paper bags full of cash and go home and stash this money in their house. It just plain doesn't make sense, and I would say that we've been extraordinarily lucky that we haven't had people calling the Mayor with more crime reports.

It should be clear to all of us, in reading the papers and watching TV, there's no shortage of anxiety in our economy. And anxiety is not good for public spending. People are naturally anxious about what's going to happen in the Gulf. They're naturally anxious about what is going to happen to the economy and their jobs. And there is some anxiety about their financial institutions. But the last thing we need to do is foster a further deterioration in confidence and unnecessary anxiety. Stories of impending financial doom are not just oversold, they are counterproductive, inaccurate, misleading, and harmful. It's time that we stopped.

Now, on a prescriptive note, what do we do from here? In considering where we go from here, the first thing we have to remember is that New England and Massachusetts will recover. We've done so in the past. We're not on our deathbed. This isn't going to become the largest Audubon sanctuary in the world, although that's been forecast in the past. I think one can say that with some fair degree of confidence.

The exact timing of that recovery is, of course, more difficult, but it is dependent in large measure on what happens to the U.S. economy. In that regard, I think you have to take every forecast with a lot of grains of salt. Because if one thing is very, very clear, we

in this economics profession are not terribly good at forecasting. That leaves us to explaining what we are good at, but Sara can talk about that later on because she's with DRI. I can let myself off the hook. But if things evolve in the Gulf the way that we all hope, we will see a turn in the national economy by about the summer of this year. If that happens--and in the grand scheme of things, this is a relatively short period of time--we'll see a turn in the fundamental, underlying economy in Massachusetts before this year is over. Now, that's the fundamental, underlying economy. That doesn't necessarily mean the real estate sector. Because the real estate sector clearly does have a lot of excess product on the market, and it's going to take a while for that to work its way off. But better days are ahead.

The question that comes next, naturally, is: What do we do about all this? And what can be done both at the local and the national level? Let me focus more on the national level, because a lot of the things that can be done on the state level <u>are</u> being done. As far as the national level goes, it is quite clear that we do have a credit crunch, even though I've found this hard to accept in retrospect. And that credit crunch is having a disproportionate impact here. While every bit of evidence suggests that "forbearance" per se, such as went on in the savings and loan crisis, is perverse, I do think that we need to find a way to reconcile economic policy with supervisory policy. One of the best maxims that's ever been given for conducting monetary policy is really quite simple. It pulls away from fancy econometric models, all kinds of timing devices, and prescribes that you should lean against the wind. When times are good you, should lean into the wind; when times are bad, you

should try to get things going a little bit. Inevitably, there's a lot of attraction to an approach in the supervisory area that leans against the wind as well.

With respect to that, how we deal with distressed real estate is going to be a very important factor in how our own financial institutions provide the credit flows that we need to get the recovery. And there are some things that can be done here.

First of all, there's been an enormous degree of unnecessary confusion, in many cases, among developers, bankers, regulators, and others on how we should treat real estate. Let me give one example, and then suggest how we might deal with it, and use it as sort of a touching off point for going forward. The one example is something to which Senator Kerry alluded to. It's a technical term called *bifurcation of loans and in-substance foreclosure*. Okay? What that means is: How do you treat a loan that's still paying interest, but because of what you think may happen to it in the future, may be classified on the bank's books and has to be treated badly? Bear with me. Say you have a loan for $10 million. The loan doesn't pencil out because of the change in the marketplace and the value of the collateral. The question that arises is: If you are able to get a tenant in the property at a lower level of rent and now it pencils out and the property is worth $8 million dollars, why can't you split the loan? Why can't you say, "I am going to take one loan, which is bad, for $2 million, and I'm going to write that off. But the other $8 million of it I am going to treat as a good loan and have that go through my income statement, ultimately improving my capital, and ultimately improving my level to lend." Now, while there are a host of legal and accounting

issues with this, it's very clear that we can't be in a position any longer where we let accounting convention drive economic reality. We have to turn that around.

Another example of this is how we're treating the value of appraised property. This is a continuous issue about the necessity of getting appraisals on an ongoing basis for properties that are in distress. Well, real estate is an interesting commodity. It's a little bit of a Catch-22. Real estate only has a value if it can be financed. But it can only be financed if it has a value. So, clearly there has to be a way to break the cycle. Now, I would have to be the first to admit that we, as regulators, have <u>not</u> been as together and have not been as constructive, perhaps, in this as we should have been. In that regard, I propose that we set up a new mechanism that would work primarily among the three federal regulatory agencies that would deal with--not on a case-by-case basis alone--what our policies are going to be for distressed real estate, for appraisals, and for loan-splitting. This isn't something new. We do this already for something called SNC, Shared National Credits. We have another thing called IKIRK--this is an acronym-rich business--in which we treat international risk in evaluating countries. I think we could and should provide a mechanism within a matter of weeks, or at the longest, a month for seeing how we are going to address these things, because we do need to turn things around now.

I make this proposal today, just as an example, because the current situation makes several things clear. First--Bill referred to this earlier, as did Senator Kerry--regardless of our partisan views, we all have an essential interest in seeing this economy turn around. If

the economy doesn't turn around, independent of your position on social issues, when there isn't any money, you get more and more of a fight for a smaller and smaller share of the pie. That just does not work and it brings out the worst in everyone.

Second, it's very clear that there is no magic bullet in all of this. To go back to the metaphor of yesterday, the resolution of this is going to be a New York Giants-type of resolution, rather than a Doug Flutie-Hail Mary pass resolution. There's going to be a lot of looking at individual things and working on it very, very hard without a lot of glory, on a case-by-case basis.

Third, cooperation between the private sector, state government, and federal regulators is more important now than it has been for a long time. It's a very trite thing to say, "Well, what's new about that?" What's new about it is, as the man said years ago, "We're all either going to hang together or we're going to hang separately." And that's something we have to keep in mind.

Having said that, my own conclusion is, if we all do work together, there is every reason to have confidence that things are going to turn out much better than people now fear. That may not be saying a great deal, because the level of fear is so great. But in my own view, we've already reached the steepest part of our own decline. And the greatest motivating factor to an enhanced decline may well be a self-defeating deterioration of

confidence, fed on stories of gloom that we all like to feed each other. Thank you very much.

Address by

Mr. John LaWare, Governor
Federal Reserve System

I'm here today at the invitation of Senator Kerry and Governor Weld to share with all of you some personal observations about the difficult problems that are facing New England today.

I come as a deeply concerned New Englander myself. Although I am a New Englander by adoption rather than birth, I go back a long way with this wonderful part of the world. My first visit to New England was in 1936, before most of you were born, on a vacation trip by car with my family. I came back to college here in 1946. I traveled all over New England as a representative of the Chemical Bank from 1956 to 1964, another period in which the economy of this region was sorely challenged and structural changes were then being engineered which undoubtedly contributed to the boom of the '80s. And the happiest ten years of my life were spent at the Shawmut Bank from 1978 to 1988, before I moved on to the Land of Oz, down there on the Potomac.

New England is now in an economic downturn which has been well-publicized, thoroughly analyzed, and discussed to the point of boredom and nausea. The conjunction of general economic contraction, commercial real estate collapse, consumer confidence evaporation, commercial bank malaise, and general Mideast anxiety have turned an otherwise easily manageable business cycle phenomenon into what seems to be the end of the world.

The media have, perhaps unwittingly, contributed to this blue funk by overpublicizing the negatives and headlining the imminent demise of banks, small businesses, state and local governments, and the economy of the entire region. And I say, "Shame, shame, shame!"

I would argue that fundamentals of the New England economy are sound, and that New England will join the national economy in recovery beginning as we move through 1991. Barring an extended military stalemate in the Middle East, the end of a short war should see a dramatic return of consumer confidence to this consumer-driven economy of ours. And lower interest rates as a result of demonstrated monetary policy, combined with a stronger demand for goods, will energize the economy. My personal projection on the basis of those assumptions is a national return to positive growth in GNP no later than the third quarter. The recovery of New England's economy may be somewhat slower than for the United States as a whole, because the lending and speculative excesses here were somewhat greater than those which preceded problems elsewhere in the country.

In my opinion, the most serious problem, and the one most difficult to deal with, is psychological. We are faced with a partial paralysis of the New England economy caused by a loss of confidence which has become endemic among bankers, businessmen, government officials, and consumers. I believe this dangerous attitude is inhibiting consumer spending, bank lending, business investment, and government innovation. If this paralysis is allowed to continue, and perhaps grow more severe, it could sabotage early recovery and limit the participation of New England in the opportunities of the '90s.

The opportunities of the '90s are many and, in my view, they are well suited to the special characteristics of New England. Electronic, biological, medical, environmental, and defense technology will be key elements in the economy of the '90s. New England is uniquely suited to profit by those developments. It is a center of education, research, technology, and environmental activism.

It is symbolic--and John Kerry may have had something to do with the choice--that we meet today in the World Trade Center. Of all the regions in the United States, New England has the highest percentage of its private-sector employment related to manufactured exports. Dollar depreciation over the last eighteen months has improved the price competitiveness of U.S. goods in world markets. New England should have a real advantage as the expected improvement in our trade balance develops in the years ahead.

Higher education and health care are industries in which New England has a preeminent position, with a concentration of colleges, universities, medical schools, technical hospitals, and research facilities unmatched anywhere. While the numbers of eighteen-year-old potential first-year college students will decline for a time, the general excellence of higher education in New England will tend to attract better students and keep classrooms full, and faculties fully occupied.

Health care is a boom industry. Indeed, we must find better ways to contain the growth of costs related to health care without dampening technological progress or

discouraging initiative, as has happened so often in countries which have turned to socialized medicine. In the meantime, employment will continue to grow in health services delivery. And the related growth in research at the magnificent teaching hospitals, particularly here in Boston, is attested to by the expanded facilities at leading institutions such as New England Medical Center, the MGH, Brigham and Women's, and the Children's Hospital, where we have just completed the doubling of our research capacity. The likelihood is for continued employment growth and research grants over both the short and long term.

Defense cutbacks, or the prospect of cutbacks, unnerved many who saw defense production as an important binding fiber in the fabric of the New England economy. But current developments in the Middle East have underscored the importance of military preparedness even in tranquil times. More important for New England, much of the sophisticated technology which has been the key to events there so far is a New England product. Patriot missiles designed and manufactured by Raytheon are an excellent example. And, even with defense spending being pared as part of budgetary discipline, Raytheon recently got a new $500 million contract, and the Bath Iron Works got a contract to build two destroyers. Moreover, New England defense contractors are diversified companies, far from being solely dependent on defense spending. Again, Raytheon, General Electric, and United Technologies are good examples.

When I started traveling in New England, which at Chemical was referred to as the Cold Country, the traditional regional manufacturing businesses were under heavy pressure.

Many, like textile machinery, were being driven out by foreign competition. Others, like textiles and shoes, were moved to parts of the country where the tax and wage cost climate enabled them to make products at prices which could meet competition from foreign manufacturers. In those days, there was genuine concern in some quarters that the region was in a permanent decline.

At the same time, the electronics industry as we know it today was being born right here in eastern Massachusetts. The quantum leaps in the physical sciences, many of which had their roots in World War II, made the area around MIT, Harvard, Tufts, and Boston University ideal for the germination of new applications and new companies to develop and market them. DEC, Wang, Prime, Data General, and a myriad of others were to form the great growth industry of the '60s, '70s, and '80s. Recently, product development problems and market timing plague the industry, including even Big Blue, but there are now signs that those problems may be behind. Growth in the future may be less explosive and more sedate, but the outlook remains favorable.

Similarly, biotechnology and genetic engineering are flourishing in the shadow of these same great universities. They will probably never be employers of the same large numbers of people, but they are nonetheless a positive and growing element of vitality in the economy.

Now, you may well ask, if all of these relatively rosy evaluations are accurate, what's wrong? Well, New England is like a high-performance car on a cold, damp morning with a run-down battery. It doesn't want to start. The engine is ready to go, but the spark to get ignition is lacking. Any of you who have lived in New England very long will say that we need a jump start. I think that jump start has to come from government because the other elements--consumers, business, banks--are out of gas.

These are the times for bipartisan cooperation to find the best public policy solutions to problems which threaten the fabric of the regional economy. We cannot afford to shun workable solutions simply because they are politically unpopular. It is my belief that the electorate will rally behind bold initiatives to restore the region to prosperity. We insult the electorate when we assume that they are unable to see beyond negative short-term implications of public policy to a brighter, economically more balanced future. We should not let the propensity for political compromise compound the deep economic problems of New England. This is the time for bold action to restimulate the economy. And if that sounds like Keynesian economics, I make no apology. I believe that when free market forces are in stalemate, it is the duty of government to break the logjam and restore the flow of commerce.

There are many approaches which might be tried, and some have already been discussed this morning. I have some modest suggestions, which may well offend or anger

almost everyone in the room. I also have some gratuitous advice for my former colleagues in the banks, which will make them think I've taken leave of my senses. So be it.

My premise is that it is thoroughly appropriate for government in a time of economic stress to act in a fashion which will stimulate economic activity and increase private sector employment.

First, export sales growth is a real, tangible, and significant opportunity for New England. We have products the world wants, particularly Europe, but we are often at a price disadvantage in competition with producers in other countries with lower production costs or weaker currencies. In recent months, the dollar has depreciated significantly against the mark and the yen, as well as sterling. This has made U.S. goods cheaper in international markets. But we still run a significant trade deficit.

How can we give New England export manufacturers an additional advantage in pricing their products against competitors in the world market? Senator John Kerry has long been an advocate of stimulus for this segment of the economy, and has contributed significantly to simplifying export licensing procedures and championing the role of export trading companies. He has an instinctive appreciation of what is good for Massachusetts and New England.

My first proposal, then, is that the New England states exempt from taxation for five years the profits of New England firms which are earned by their export sales. The additional margin available to New England companies would give them pricing flexibility that could materially enhance their competitiveness. The relatively small direct revenue losses would be offset by greater business activity, increased employment, and even new business formation in this region to take advantage of that material tax incentive. An enhancement of that program might be the creation of trade enterprise zones in which manufacturing facilities engaged in making products for export would also be exempt from local property taxes and other local levies.

An approach of this kind, while targeted at a specific business sector, is really an investment in the vitality of the whole economy, since increased business investment results in higher employment, more retail sales, greater housing demand, and ultimately a broader tax base over all. In the 1950s and early '60s, when New England was struggling with another kind of general economic slump, new businesses were attracted to the region by locally created and financed speculative industrial parks and tax incentives. Those tactics ultimately worked in the long-term interest of the communities which sponsored them, even at significant short term cost. Burlington, Vermont, successfully attracted major manufacturers in the late 1950s by this type of program. And it was the beginning of the economic rebirth of that city.

My second proposal may raise some partisan hackles, but try to consider it objectively. I urge you to revisit the underlying concept of the highly controversial proposal of the early 1980s to deal with the decaying infrastructure of Massachusetts. Governor Dukakis called it MassBank. The concept was to create a separate agency with a dedicated revenue stream and the sole mission of rebuilding the highways, bridges, and tunnels which were deteriorating rapidly. With the general exception of the Turnpike, that deterioration has continued into the new decade and has been accompanied by an increasing concern over the safe disposal of hazardous waste.

We should consider the establishment of a regional authority, supported and financed by a 5- or 10-cent additional per-gallon tax on gasoline in all six states. Such an authority could issue revenue bonds serviced by the gasoline taxes and other revenues possibly derived from tolls, parking fees, other infrastructure-related services, and waste disposal fees. The program would be self-financed through the users. It would not only improve the quality of life for New England residents, and increase the safety factors, but it would tend to improve New England travel for tourists. Improved highway transportation would also make New England more attractive to business investment, particularly manufacturing investment; and in the process, jobs are created and otherwise idle construction capacity is utilized. Furthermore, undertaking a program of this type through a regional authority assures a coordinated approach which will tend to make the individual projects complement each other. In addition, a regional authority based on revenue bonds will probably fare better in the capital markets than would individual state authorities or even the states themselves.

I believe that attacking the infrastructure problem with a user-financed regional authority could be both a short- and long-term shot in the arm for New England, and a morale builder as well.

My third recommendation is directed at the bankers. I have deliberated long and earnestly over this one. I want very much to be taken seriously in what I am about to say. And I don't want to sound like I am preaching self-righteously to a congregation of sinners. In fact, where borrowers don't repay loans, you can argue that the bankers are more sinned against than sinning.

In any case, I believe more than government, more than consumers, more than businessmen, bankers have in their power the ability to turn this regional recession into a regional recovery. Thirty years ago, banks and venture capital entrepreneurs like the American Research and Development Company and General Doriot created the regional electronics industry. Raytheon, as it exists today, might not be there if Dick Hill and the First National Bank of Boston hadn't held together a group of bank lenders in New York and Chicago at a time when the company was having some very serious problems. Sanders Associates in Nashua, New Hampshire, might never have seen the light of day if the New England Trust Company--a predecessor of the Bank of New England--and a wonderful banker by the name of Elliot Hedge hadn't had the courage to finance Sanders Corporation receivables when they were building sonar buoys and wiring harnesses on the third floor of an old Textron mill in Nashua. And DEC got its seed money from General Doriot and a

loan from Shawmut at a time when the very concept that it was pursuing was essentially unproven.

Ladies and gentlemen, that was gutsy lending. Not all of the loans and investments were as successful as the ones I've cited, but without the entrepreneurs who conceived those companies and the bankers who nourished them, where would the economy of New England have been in the '70s and '80s?

In this uncertain world, made more uncertain by war and economic slack, some bankers at the top have lost their nerve and ordered a retreat from their basic business, which is lending money. Other bankers, more junior members of the team, are getting confusing signals about their banks' willingness to lend and, insecure in their jobs if they make a mistake, they avoid loan opportunities rather than seek them out.

If we hope to bring New England out of this recession and this slough of despair in which it finds itself, the banks must meet the legitimate credit needs of the regional economy. Now, maybe the very thought of a commercial real estate loan makes bankers' stomachs heave. But I would argue that even in this environment, sound real estate loans can be made if we revert to basic lending principles which recognize the importance of equity in deals, capital strength in the borrowers, realistic cash flow projections to service the debt, and a properly conservative appraisal of the market projections that are inherent in the loan proposal. Especially in times like these, small businesses may need more bank

credit than they ordinarily do to help them deal with slower receivables and unforeseen inventory buildups. These are legitimate working capital requirements, and small businesses, unlike larger firms, may not have access to credit sources other than banks. It's a proper role for bank financing, if the banker knows the borrower and his business well.

Consumers are probably less likely to be clamoring for credit during a recession, since they tend to slow spending and borrowing when they are uncertain. But lending practices which discourage or deny credit to qualified consumers only aggravate the general situation and prolong the downturn. If banks refuse to lend, they abandon one of their fundamental roles in the economy--as the intermediator between those with excess funds and those who need the funds.

I urge bankers here in New England to examine their current lending practices and policies and search out ways to reassume a leadership role in reviving the faltering economy. Bankers can play a decisive part in recovery, just as they did in the '50s and '60s.

This conference is an exciting initiative in the best traditions of Yankee culture, the Yankee culture that says there's a job to be done. Let's do it.

Governor Weld, Senator Kerry, Senator Tsongas, thank you for letting me come and participate.

Remarks by
Senator Edward M. Kennedy
United States Senate

First of all, I want to join in a very well-deserved commendation for my colleague, John Kerry, for initiating this particular program. The time that I spent this morning attending the General Assembly, and also the sessions on financial and banking matters and education, really has demonstrated the importance of this conference today. I express admiration to Governor Weld as well, for his enthusiastic support for this program. I know we have a number of members of the congressional delegation here. I think all of us are looking forward to working with this group--not only today but on the recommendations and suggestions that are made, which are going to take action at the federal level as well as at the state level. This has been an exciting program, and I think all of us are very proud of a bipartisan tradition in Massachusetts, which has been going on since I had the good fortune of going into the United States Senate and working with Senator Saltonstall many years ago. Whether it has been Governor Volpe or Sargent or Governor Weld, or whether it's been Governor Dukakis and other Democratic governors, we have worked very closely together with the congressional delegation as well as with the state government. And today we're reminded of the importance of that tradition in the past, and I know that it'll continue in the future.

Obviously, we meet at a time of urgency for our state, region and country on the economic challenges which are all too evident to everyone here. We're also very mindful of the challenges that we're facing abroad in the Gulf. And all of our attention rightfully is

focused on the extraordinarily brave men and women who are acting in our national interest. But it is appropriate that we do pause and think about what kind of world we're going to have, and what kind of state we're going to be for those individuals when they return, hopefully sooner, not later. Will they be able to move into an economy which is going to provide jobs? Will they be able to continue their education by taking out lines of credit at our banking institutions? Will they be able to afford mortgages on their homes? Will they find the kinds of values and ideals which this generation is fighting for in the Gulf when they do return? What are they going to find here in our Commonwealth, in the region, and across the country?

I commend all of those that are here today in helping to assist us in our Commonwealth. I'm also mindful that the recession has a "made in Washington" component. And I think we in Washington do have some responsibilities to the Commonwealth to find ways that we can work in a coordinated fashion. I am not just thinking of the larger kinds of public spending programs and massive infrastructure in terms of building and construction, which in many instances have been developed in the past, but also of the things that can be done in the shorter term, which call for a more realistic way to accelerate the return to some degree of normalcy. We have been able--at a time when we're facing challenges here, and in a time of some gloom and doom--to continue to work together, whether it's been on the federal courthouse, or the third harbor tunnel, or the rapid speed railroad, or the increase in biomedical research, or increased tourism funds. We've been able to get our fair share of resources for our Commonwealth over a period of time.

Now, there is $200 million in the defense appropriation, which is for economic conversion to move defense-oriented plants into the economic mainstream. Hopefully, we in the congressional delegation can help and assist the Governor, and assist mayors and the economic planners as we begin now to take advantage of that funding in order to relieve the pressures on local communities and act in an enlightened way.

All of us here recognize the importance of the credit crunch. I think many of us understand the lack of effective regulation in the past and the excesses which have taken place not only in our part of the country, but particularly in the Southwest and California. The principal concern that many of us have now is to avoid an overreaction. Many of us take heart at the statements that have been made by Mr. Greenspan, appearing at the Banking Committee and the Joint Economic Committee, and also the statements that he's made to Senator Kerry. They offer some more realistic kinds of assessments of what is happening in terms of liquidity and the real estate market and also what is necessary for banking. And all of us will try to see that that moves forward.

Finally, as we look forward to the various recommendations, I think we have to look at the more general kinds of economic challenges which our country is facing. A number of years ago, we in the United States could take a special satisfaction that we had the major resources that existed around the world. But having the resources is not the key to a successful economy. And then we took a great deal of satisfaction in the fact that we were essentially a common market. But now we know that the world community is a common

market far in excess of what we are. And, thirdly, we had a sense of confidence in institutions, fifty or seventy-five years ago. And that fundamental confidence in institutions, whether it's political institutions, whether it's the banking industry, whether it's the church or family, has also received its share of questioning. A restoration of that confidence is important for us in terms of shaping and fashioning the kind of society and community that we want to be.

We know our competitors and the kind of decisions that they have made: high-wage jobs in Germany and Japan and the European countries, and highly competitive policies. Certainly, as we're looking at Massachusetts and our economy, we also have to ask ourselves what we want to be in terms of the international competition. We can't rely on the old slogans and the old shibboleths of the past. We have the ability to compete, and compete effectively, so that we, as a community of workers, businessmen, and bankers are all able to move along together.

All of us are looking forward beyond today. The real challenge for this particular meeting is whether we're going to have the kind of follow-up, the kind of willingness that we have seen exhibited so well during the sessions that I've had a chance to attend. People are willing to pitch in, help and to be involved in this process. We know that the problem is not going to be resolved in just a few days, weeks, or months. But I am impressed by the attitude that what is taking place here is a real desire to see that we're laying the

groundwork, not just for the months and the immediate years ahead, but for many years in the future.

Excerpts of Panelists' Remarks by

Mr. William Crozier, President & CEO
BayBanks

The issue everybody seems to be talking about is confidence, so let me just talk about confidence, because it is a key question. Needless to say, as far as banks are concerned, confidence rests mostly with our community, which is you. Your confidence is the most important confidence of all.

Bankers lend money on a discounted present value of future income streams.

So, Governor, Mr. Mayor and Senator Kerry, and all of you wonderful people out there, work on the income streams. You get the income streams right and we'll get the banking right.

We have to find some way to stabilize the real estate market. Banks lend against real estate. If you won't stabilize the values, we don't know what the collateral value is, and we won't lend against it.

Banks $1 billion to $2 billion in size can use temporary capital assistance. The Secretary and I and others are working to get the federal government to infuse enough temporary capital to Massachusetts to assist us until the situation stabilizes here and permanent capital is willing to return.

Failure is an issue for shareholders. Failure is an issue for bondholders. Failure in the banking system cannot be an issue for depositors! And, that shameful chapter has to be corrected. If the federal government will not correct it, then we ourselves ought to act to correct it. Perhaps it means greater supervision on the part of the banking industry than we would like. Perhaps it means that good banks have to pay some of the bill of bad banks. But the fact of the matter is, this situation cannot be tolerated. If that means that BayBanks has to put up its fair share to indemnify the depositors in the Commonwealth of Massachusetts who lost money on the Capitol Bank, we'll do so.

No depositor in the Commonwealth of Massachusetts should be talking about putting money anywhere other than in an FDIC-insured bank in the Commonwealth.

Excerpts of Panelists' Remarks by

Mr. John Gould, President & CEO
Associated Industries of Massachusetts

Credit availability is a very serious issue that affects my 3,000 members.

In the fourth quarter of 1989 we suddenly saw revolving loans not exist any longer. We saw the fixed cost, the fixed lines of credit going sky high, in some cases, 10 to 12% of the annual profit of the company. And we saw any loan related to real estate suddenly either being called or just pushed to a nonaccrual status.

We need a research and development tax credit if we are going to take advantage of the biotech and the high technology operations. We find ourselves today doing the research and development, and then shipping the prototype and the other manufacturing aspects to other states. That is a disaster we cannot afford to continue. If we could streamline the regulatory process, we could go a long way in countering a Grant Thornton study which in 1990 found Massachusetts going from 6th to 25th among 29 greater industrial states.

Excerpts of Panelists' Remarks by

Mr. Joseph Faherty, President
State Labor Council, AFL-CIO

Unions can bring many assets to a partnership: a skilled and stable work force and the capital to fuel economic engines.

Pension funds, both public and private, hold a mostly-untapped potential to create new jobs and new revenue for the state's route through investments.

Another option is employee ownership of business, when financing is unavailable through normal funding channels. Worker investment may offer a company the capital it needs to expand to survive. Infrastructure must also be a top priority. Construction creates much-needed jobs while an improved infrastructure offers additional incentives for new business to locate in the state.

Excerpts of Panelists' Remarks by

**Mr. Mitchell Kertzman, CEO
Powersoft Corporation**

In an economic downturn large companies typically do a couple of things. By necessity they have to shed some employees, and sometimes they are very good employees, sometimes they're the best. Additionally, they often also discontinue some long-term, riskier R & D projects.

These are usually great opportunities for people to start businesses. These high-quality, talented people can start businesses by taking some of these ideas they were working on and bringing them to the market. And that's really been the strength of the Massachusetts growth in high tech in the 1970s and 1980s.

This would probably be the best period I have ever seen for such people and such ideas, were it not for one problem. Unlike in past periods, there is <u>no</u> capital available for these companies and for these entrepreneurs.

As a result, we face a period where we would normally be seeing the planting of the seeds of the next round of economic growth. But that is not happening. People are not starting businesses here in Massachusetts because of the lack of availability of capital. We need to remember that it is up to those of us with products that we are developing today, to make sure we have the right products for the market.

Excerpts of Panelists' Remarks by

Ms. Sara Johnson, Economist
Data Resources, Inc./McGraw-Hill

There is uncertainty out there.

The risks currently are associated largely with the fragile financial system, the Persian Gulf war, the future of oil prices. We see recent events resolving on a positive side, certainly the drop in oil prices, the rally in financial markets is good news. And indeed, if the war ends in a few months from now with a successful result, we expect that the national economy will be on its way to recovery by late spring.

Recovery for the Massachusetts economy, however, will come more gradually. Several roadblocks remain: the depressed real estate market, a regional credit crunch, shrinking defense budgets, and the drag created by a burgeoning state deficit. Therefore, we see the turnaround in Massachusetts coming more slowly, as structural adjustments take place in the banking and computer industries.

Certainly the future is bright, based on our universities, our skilled labor force, our high quality of life in the New England area. But don't expect a quick turnaround, don't expect a buoyant turnaround. It's taken a while to get into the current recession. It will take a while to get out and to get back on the road to expansion.

GROWTH PROSPECTS BY INDUSTRY

Summaries of Technical Meetings

Moderated by

Mr. Paul O'Brien, President & CEO
New England Telephone

I'd like to thank my fellow steering committee members, Senator Tsongas and Secretary Gregory. I think we made a great team in developing the agenda with Senator Kerry and Governor Weld.

This conference is organized into three segments. The first segment in which we just participated was the panel session on how to stabilize and finance the Massachusetts economy. My role is to pull together this next segment, the purpose of which is to identify key issues and opportunities for growth by specific industry segments. In a few minutes all conference attendants will break into eight groups to discuss industry-specific economic challenges. These eight working groups will focus on manufacturing; health care; biotechnology and medical equipment; banking and financial services; high technology; construction and development; higher education; and energy and environment.

On the back of your name tag is the group to which you have been assigned. Highly respected leaders in industry, labor, government and academia will lead these discussions and bring your ideas back to fuel the rest of today's program. Your inputs, ideas, and recommendations are of tremendous importance to moving Massachusetts forward. Our hope

is that you will reach consensus around several key issues which flow into this afternoon's session.

[Note: The eight discussion groups met before lunch. Following lunch Mr. O'Brien reconvened the groups to share synopses of their discussions.]

Thank you all for participating. We have now gathered the information from each of the industry segments.

The discussion session on manufacturing was led by Charles Housen, Chief Executive Officer for Erving Paper Mills. Co-moderator Herb Ahrens, Vice President for Manufacturing at Polaroid, will make this group's presentation.

A synopsis of the health care, biotechnology and medical equipment discussion will be given by co-moderator Dr. Mitchell Rabkin, CEO of Beth Israel Hospital. Gabriel Schmergel, CEO of Genetics Institute, led this group session.

On the banking and financial services sector, we will hear from John Hamill, CEO of Shawmut Bank, who co-moderated this session, which was led by James Morton, CEO of John Hancock Mutual Life.

On electronics, computer and telecommunications, the discussion leader was Cheryl Handler, who is CEO of Thinking Machines. The group co-moderator and reporter today is privileged to be the CEO of what *Inc. Magazine* has said is the fastest growing company in the Commonwealth and the ninth fastest growing company in the U.S. That CEO is Ian Davison.

Thomas Flatley, president of Flatley Company, co-moderated the discussion on construction and development, which was led by Joseph Nigro of Greater Boston Building Trades. Tom will present his group's recommendations.

Co-moderator Elizabeth Kennan, President of Mount Holyoke College, will give a synopsis of the discussion on higher education. The breakout discussion leader was Randolph Bromery, Chancellor of the Board of Regents.

On tourism and services, we will hear from Thomas Kershaw, President and Owner of Hampshire House. Tom co-moderated with group discussion leader James Daley, who is President of the Daley Hotel Group.

Finally, John Rowe, CEO of New England Electric Systems will report on the session on energy and environment. John's fellow discussion leaders were John Driscoll, CEO of HNU Systems and Secretary of the Executive Office of Environmental Affairs, Sue Tierney.

These people are in substantial positions of responsibility in various industry segments although not everyone many be familiar with them. It is especially my pleasure to have such a strong cross-section of leadership styles here today.

Remember that the information gathered from these discussion sessions will flow into our final segment to help answer the question, "What can we do to renew the Massachusetts economy?" These ideas will seed the final discussion on five major issues facing the Commonwealth.

This information also will be used by Senator Kerry in his deliberations in Washington and by Secretary Gregory and Governor Weld in forming their executive and legislative programs.

And now, let's hear their reports.

Summary By
Mr. Herb Ahrens, Vice President of Manufacturing
Polaroid Corporation

MANUFACTURING

I'm with Polaroid, and I represent this afternoon forty-five very enthusiastic members of a discussion group that was made up of members of government, academia, and industry. And the discussion was led by my colleague, Charlie, from Erving Paper Mills.

We spent a lot of time talking about the importance of manufacturing. We heard Senator Kerry this morning define the question as, "Is the community business-friendly? We asked, "Is the community manufacturing-friendly? What is manufacturing's place, and what is the overarching look at manufacturing?"

It seemed to me that borrowing a little bit from the MIT study on industrial activity was appropriate here. Their opening theme is that to live well, a nation must produce well. And so it is that to live well a commonwealth must produce well. And we think that manufacturing is the core of that effort.

We made some general observations about ourselves. Many of us were from within the 495 area, but more were from without. Most of us represented small businesses. A hundred, two hundred people was the average size. And we recognized that much of Massachusetts industry is small.

We came up with many ideas, but they focused on three broad areas. The first is attitudes; the second is costs; and the third is job creation.

First, about attitudes. Here we're talking about our workers' attitudes, our management attitudes, community attitudes, government attitudes. We want to be proud of living here. We want to be bullish on Massachusetts. And it's really the whole issue about being manufacturing-friendly. We want the community to welcome manufacturing, not worry about more traffic. Or not worry about what's going to happen if they put up a factory in my town. We need to have manufacturing-friendly attitudes everywhere. And we need the State's help in making that happen.

Second, you can't talk about manufacturing without talking about costs. Workers' Compensation, health care costs. And we all knew before we read the *Globe* this morning what the issue was on health care costs. Unemployment insurance, environmental and regulation affairs--all of these issues go into costs, the labor cost, the cost of bringing people into an expensive environment. Bringing in top scientists, bringing in top people, keeping people here, all have to do with the cost of living, and that reflects in our cost and in our competitiveness.

We forced ourselves to get through a lot of issues quickly and come up with some recommendations. We wanted to recommend that Massachusetts and its communities do more to foster the use of an enterprise zone concept, to provide incentives to business and to

lower business costs. It's recommended that Massachusetts and its communities develop a technique for one-stop shopping, for businesses to shepherd business through all regulations and licensing, to make Massachusetts more cost-competitive than other jurisdictions and make us truly competitive, not only in the U.S., but globally.

The third issue, job creation, covers many of the others. We think there are three main methods why jobs are created here in Massachusetts. First, expansion of our current business. The second, bringing people from outside of Massachusetts into our Commonwealth. And, third, the need to nurture start-ups in our environment. In order to prosper, we need to do all three of these.

We heard about many great ideas. Pittsfield has an entrepreneurial program to train displaced workers. They can then become small businessmen. This is financed by JTPA, the federally-funded Job Training Partnership Act. This needs to be expanded in scope. To create jobs in the long run, we need to nurture our academic strength, we need to lure people into the area, and we need to retain our young entrepreneurs.

Other jurisdictions are doing more than Massachusetts in this regard. We heard about Governor Cuomo taking a Massachusetts company into New York. We can't let this happen. We've got to be proactive. We've got to have reasons for people to stay.

The credit crunch: This is impeding our ability not only to survive, but also to even think about growing. When we want to grow, we've got sound balance sheets on many of our companies. We go to the banks and we can't get the funds. We need the help of many of you in this room, so that those businesses can be financed to make this capital available. And we heard many of the ideas today.

Now, we also talked about locating sources of new equity investment. But basically we need to bring in funds so that we can expand our businesses. We need to provide capital so that the young idea people coming out of our universities are building on our strategic strength of academia which can finance their start-up companies and get going.

And then, finally, we said, there's really another way to grow--export promotion. I was glad to hear that Governor LaWare made this one of his priorities, because it took much of our discussion time this morning, We recognize the position of the dollar. We recognize the position of our products. We think this is a critical way for us to expand, and we also think it's difficult and we could use some help from government.

Our specific recommendations for export expansion were that we sponsor trade missions; that there be investment tax credit for exports; incentives for exporting, including differential taxation for exports over goods produced for domestic consumption. These ideas were all very important to us.

There was a lot of energy in the group. Our scribes know who we all are. I think that energy is going to continue over the next few months. Let's hope that this can contribute to solving our problem. Thank you.

Summary By
Dr. Mitchell Rabkin, President
Beth Israel Hospital

HEALTH CARE, BIOTECHNOLOGY, MEDICAL EQUIPMENT

We began by recognizing that biotechnology and health care were strange bedfellows, in the sense that health care does not participate in exactly the same market characteristics as biotechnology does. Furthermore, a burgeoning health care program can, of course, create major problems for all of industry in terms of the bottom line.

Given that, we focused first on biotechnology and agreed, as everyone here has, on the general need to improve business conditions in Massachusetts, access to capital, and the capacity to attract and retain employees at all levels. But what is critical in biotechnology is the move from R&D, which is larger than most people expected here in Massachusetts, with many relatively small but vigorous firms. The critical thing is the move from R&D to manufacturing, which was felt to represent a major area of opportunity. The biotechnology industry, it was determined, needs a sense of security about Massachusetts. Not just to perceive Massachusetts as business-friendly tomorrow, in response to the crisis that brings us here this morning and this afternoon; but rather Massachusetts as business-friendly over the long term.

Second, the biotech industry claims they essentially have not been courted, and feel that they need to be marketed by Massachusetts, by the state really, in terms of why it is good to stay here in Massachusetts, why it is important to stay and grow.

And, finally, there was an issue of some regulatory inconsistency from one city to another, so that at times certain organizations felt that it was difficult to expand.

In the discussion of biotechnology, it was appreciated that there was a relatedness of the biotechnology industry to academic medicine. It is important that each join with the other in terms of supporting legislation, particularly on a federal level, that might influence the fate of either. In particular, it was felt that biotechnology had not joined very closely with academic medicine, or vice versa, in terms of support of the NIH research dollars which are always being gone after by OMB.

On the matter of health care, it was recognized that health care is a major component of the economy of Massachusetts. Hospitals in Massachusetts employ about 168,000 people, other health care industries about 122,000. Biotechnology, medical equipment, and related industries another 117,000. So about 407,000 of the three million people employed in Massachusetts are involved in one way or another in health care.

There were threats that were seen. Those at the federal level represent those coming from HCFA and OMB, particularly on the funding of capital, which has major consequences

in terms of construction trades and employment, and also the funding of medical education, which is responsible for the excellence of the great teaching hospitals in Boston and throughout Massachusetts. It is also responsible in many ways for that component that makes Massachusetts and Boston so attractive to many people in all fields. The pressures on NIH dollars was another federal issue that required attention.

At the state level, issues centered on the determination-of-need question. There is in the pipeline some $850 million of construction which is simply waiting for the requisite approval. And that means about 13,000 jobs in terms of construction. There is also construction which is not determination-of-need related. For example, Boston's Beth Israel Hospital, of which I am the CEO, has been working, along with others, with the developers of Olmstead Plaza, the former Sears Building, just down the road from us--trying to get that going with a major, major research component which would be attractive not only to teaching hospitals such as BI, but attractive to industry as well.

There are other areas of growth and development. But the problem with growth and development in health care is, of course, that a vigorous health-care economy means increased health-care costs. And increased health-care costs erode the profits of business, particularly in an economy that is slowing down. So here's the dilemma. In addition, of course, we have the tremendous social issue of 37 million people uninsured or underinsured nationally--the only industrialized nation which has that particular blemish in its record.

As far as health care is concerned, it was obvious that a general strengthening of the economy will diminish the pressure that health-care costs make us all feel on our own bottom lines. And that goes for teaching hospitals as well as other industries. But in the last analysis it was felt that sooner or later, we must rework the financing and the delivery of health care. It is unlikely that this will happen nationally all at once. It is far more likely that it could happen in Massachusetts, either in isolated initial ventures or statewide. But sooner or later this has to be dealt with. One of the first steps, of course, is great care in dealing with the successor to the present Massachusetts law on universal health care.

Summary By
Mr. John Hamill, President & CEO
Shawmut Bank

BANKING and FINANCIAL SERVICES

If I may just state that on Saturday, C-SPAN had three and a half hours worth of discussion between the Senate Banking Committee and the Board of the RTC, which includes Alan Greenspan; Secretary of the Treasury Nick Brady; Jack Kemp, Secretary of HUD; and two other directors. My attention was absorbed and I was able to keep my kids away from the TV. They even began to get interested in the discussion. Some of the transcripts of the hearing are in your packet, which I urge you to read.

I was pleased to see not only Senator Kerry, but Senator Dodd espousing the need to address the issue of New England. I was also pleased to see that other senators from around the United States have realized that this is a national issue that we're talking about and not just about New England. While we in New England feel we've been in this situation now for over two years, and given some of the problems that we've faced in our state, like the deficits, it is important to remember that this discussion is national in scope, and we should not feel alone in the issues that we're trying to address.

I want to report on a very lively discussion we had today with regard to the banking and financial services industry. There were three sets of recommendations--one directed to

the bankers, one directed to the state administration, and one addressed to Congress and the Administration.

Being a banker, this is easy for me to say--first--it's clear that there is a need on the part of bankers to admit that a number of mistakes have been made over the last seven or eight years when we were going through the boom, and to not blame all of the issues on the federal regulators and/or other groups. I also think that it is important to explain that mistakes that were made have been amplified well out of proportion by the current economic conditions that we're now suffering. Therefore, these are conditions that by far exceed anyone's expectations and highlight not fundamental errors on the part of those who were lending, but rather errors that have been made greater by the way in which the economy has fallen.

Banks also need to do a better job of explaining the way in which loans are now graded and reviewed. Appraisals should be known to the borrower in a more direct fashion than is the case today. Time and again we've heard that borrowers who consider themselves to be good borrowers are not getting loans at the bank. Why that is happening, and why borrowers who were considered to be good borrowers are not considered to be good borrowers today, needs to be extensively and openly discussed.

Banks must not lose their focus on the small borrowers, especially those who need working capital loans. I think it's fair to say that the reason we've had so many complaints

from the smaller borrowers is because, indeed, even the bigger banks are made up of loans to small borrowers. If you look at any bank today in this Commonwealth, there is probably an 80/20 rule at work whereby in dollar amounts, 20 percent of portfolios are comprised of the larger borrowers; but 80 percent of the borrowers in any given bank portfolio, large or small, are the smaller customers. And those smaller borrowers are important to the Commonwealth as well as to the bank. Banks must continue to be able to keep the focus on those small borrowers.

Finally, banks should work with housing groups to provide inventory for low-income housing, to ensure that the issue of housing in the Commonwealth--and the obstacles in obtaining it--is appropriately addressed, especially given the kind of inventory that is in many of the banks' portfolios.

Turning now to the recommendations to the state, it was strongly recommended by a number of people in our audience that the appointment of a State Banking Commissioner is one of the highest priority appointments yet to be filled by the present administration. There needs to be a person who will be able to address the banking issues in a coordinated fashion. Indeed, the Banking Commissioner also will be needed to highlight the continued strengths in today's banking and financial services sector, notwithstanding the fact that the problems of real estate seem to be overshadowing all other factors.

A point was made in reference to the statement by Governor Weld, in which a review of duplicative or unnecessary regulations would be made in his administration. Clearly, those regulations have a major impact on the profitability and the effectiveness of banking today.

Finally, regarding a recommendation to the state, quasi-public finance agencies such as CDC and MIFA must continue to be utilized to provide equity and debt financing to a variety of critical projects. No one agency would create enough funding to solve the problems of the Commonwealth; therefore, this quasi-public agency would be used as part of the many remedies that will be needed to solve these problems.

As far as recommendations for Congress and the Administration, it was suggested that the splitting of loans be allowed. It is considered today a technical issue, but in the banking industry, if a loan can be split into a good loan and bad loan, the income attributable to the good loan can be brought into the income statement, whereby the bad loan is charged off. There would be an enormous addition to capital that would be generated as a result of that somewhat technical, but fairly straightforward step. Today we're waiting for a solution to that problem, which is in the hands of the regulatory structure. A coordinated regulatory approach is a high priority.

An issue that received much discussion from both the appraisal community as well as the bankers is the question of appraisal policies. This is an issue that probably has as much

to do with the restoration or the reduction of capital, which again has a direct impact on the ability of a bank to lend back into the community. Basically, the point that was made--found in your packet--is the quote from Chairman Greenspan, indicating that the appraisal of real estate should not be done according to the liquidating value, as is the case of many of the appraisals being performed today on a loan that is made by a bank against that property. Rather, we should be looking at the appraisal over an extended period of time in a more stabilized environment. That is a notion that is highly regarded both from the appraisal community and certainly from a political and a regulatory standpoint I think it makes good sense.

Another recommendation to Congress and the Administration is to continue to explore the provision of temporary capital, either through the FDIC or through a federal public/private venture, to banks which are not yet insolvent but find themselves in a weak condition. Here the question at hand is, "Are we better off being able to provide additional capital on a temporary basis to an institution that is, in fact, able to find its way through the morass that we're in now, but yet not insolvent, thus providing to the depositors of the Commonwealth and all other parts of the country enhanced confidence in our banking system?" To be able to provide a bank that support would mean they can continue to provide lending capacity to the state in which it can exist.

On a national scale, there also is an immediate need for the clarification of the FDIC's role in the case of a failed bank, in order to be able to properly address the question

of "too big to fail." It's a national issue that's been debated in the banking industry for years. It is now in the public sector, where it must be resolved to be able to retain the confidence of the American public in the banking industry.

Finally, a recommendation was made to develop tax credits for the use of incentives to deal with troubled real estate properties to take care of some of the issues surrounding real estate.

Thank you very much.

Summary By
Mr. Ian Davison, Chief Executive Officer
Octocom Systems

HIGH TECHNOLOGY - ELECTRONICS, COMPUTERS, TELECOMMUNICATIONS

We had an extremely lively discussion, and I guess I could probably summarize it by just stealing a little statement from an old Dustin Hoffman movie. "I've only got one word to say to you, and that's 'sizzle.'" I'd like to come back to that as I go through this little presentation.

The first major area of discussion that we had which has been touched on by many of us, was increased capital availability. And our focus was primarily on looking at high-risk growth-oriented projects. If we go back, we've heard many comments on many companies such as Raytheon and Digital, which are the backbone of our economy today in high-tech, and if those had never been funded in the early days, this phase of Massachusetts would be considerably different.

The second major area was improvement of basic services and infrastructure, with a tremendous emphasis on just getting back to the basics. Education--simply improving early education to support working mothers and families, is a very important part. The idea is to look at some innovative scheme in terms of education that Massachusetts could be proud of in the future, which could represent educational innovation to the entire nation. The linkage

of training schemes to future needs of business is very important. Also, investing in physical infrastructure, a topic that also has been touched on many times earlier, is critical.

The third major area was rationalizing the relationships between the public and the private sector. We all felt that we need the procedures to be streamlined. We need to improve the responsiveness and to instill a very simple "can-do" attitude in government. We would like for someone to be able to say, "Yes. That's what we can do," rather than "We've never done it that way before," or "That's not really possible." We need to ask government to assist more companies in exporting. One of the greatest assets that this state has is export ability. We need to take it significantly further, and again, use it as a representative model for the rest of the nation. Foreign trade zones was a very important part, and provided a significant portion of our discussion. Government should take a very close look at cooperating with private universities, who can help raise capital generally and for the universities in particular. That source of knowledge, wealth and communication, the contacts in the world at large, is important because most significant people who are influential in business around the world have at some point come through this great educational system here in Massachusetts. And that wealth of contacts is very important and should never be forgotten.

Let's get back to the sizzle. That was the fourth point, and it provided by far the most fundamental part of our discussion. We really want to market Massachusetts as an attractive state for business. If you think about it, running a state is no different from

running a business, with all those aspects that make up a complete and profitable opportunity. In Massachusetts we need to accent the marketing. That will create many things; it will attract federal R&D money. But in order to do that, we need to create a marketing program that can really go out not only to the nation, but also to the world at large, just telling everyone how great Massachusetts is. I look around and I see all the things that are in this state. We've got some of the best colleges and universities. We've got some of the best hospitals. In fact, most of what is in Massachusetts is really great, but we're the world's best-kept secret. We need to turn the downturn around and make it an upturn, make an opportunity from it. There may be tons of meat in Massachusetts, there's very little sizzle. That is the real opportunity for us: to create a stunning and very upbeat marketing program that we can be proud of internally and we can be proud of around the nation, and indeed, internationally.

We need to accentuate the positives. Talking about the negatives doesn't get anyone anywhere. We need to take the downturn, turn it into a positive and run with it. Business can do its part in making things great. We can also be pro-active; we should be sounding out how great Massachusetts is in all the four corners of the world. It is our job to help, through liaisons with the government, in order to say, "This is the place to be." With this, we will find that the overall goal of generating jobs, generating profits, and reducing the deficit, will just happen quite naturally with a commonality of theme between all of us--government, education, and business alike. Thank you.

Summary By
Mr. Thomas Flatley, President
Flatley Company

CONSTRUCTION and DEVELOPMENT

We had a very lively and worthwhile discussion, with approximately seventy people in attendance. If we were to look at development and real estate in the last ten years, we would have to say that 35 to 40 percent of development in this country was in the construction of hotels, office buildings, and shopping centers. That's an enormous amount of development. But when you think it through, there's one area that we haven't kept up with--and that's infrastructure development. We heard a lot about that in the session.

During the time we were together, about an hour and five minutes, probably forty minutes were devoted to the Central Artery/Third Harbor Tunnel. This seems to be a critical project, if ever there was a time to strive, and if ever we could encourage those who are significant in moving ahead and endorse this project. We felt this is not just for jobs alone. Yes, it's critical to jobs, as we heard earlier this morning. Jobs is the name of the game. When people can't put bread on their table and accomplish other things, everyone gets frustrated. But equally important, this is a time--perhaps in the next few years--that we can really benefit from innovative projects. We can create the foundation for the private sector of tomorrow, the Wangs and the Digitals, to come forward and have the type of atmosphere that will very well lend itself to creating all those jobs that we have been talking about.

We also had a lot of discussion in regard to some of the bond issues that are coming up and the importance of infrastructure development, including rapid transit. We looked to some projects that were done but are really not competitive. Within the city of Boston, we now have a vacancy rate of 15 percent in office buildings. We should look to critical projects like the Boston Garden and the rebuilding of some of the older buildings and hospitals. We heard Mitchell Rabkin earlier talk about one of the great institutions and what plans there are in rebuilding it. At the present time, Mass. General Hospital is undergoing some reconstruction. We have had good luck over the years in having great universities and hospitals, but other places throughout the country now also have great institutions, and it isn't ours to hold for the next generation unless we also create an environment and the infrastructure to go with it.

Next, there was some concern about the gasoline tax. Everybody supported that two cents of this tax should go towards the Central Artery/Third Harbor Tunnel project. But there was also concern that during the reshuffling on Beacon Hill, the communities on the North Shore, South Shore, out West and in other areas, would not get the balance of that two cents and the total amount to develop roads and bridges in those communities. They ask that these public works projects be publicized so that the communities are aware of how the funds are being spent. We had in attendance with us the executive director of MassPort, Al Raine. He indicated that we could have as much as half a billion dollars' worth of work from the Port Authority in the future, and that this third harbor tunnel dovetails into that. It's going to be very important that the tunnel be constructed in order for everything to work.

Next item of concern is the regulatory process. We'd like to see this process expedited more. For example, if you have a site today and you wish to have a 21(E) State Superfund problem for hazardous waste sites removed, it could take up to five years to get permission, even if you have a party who is willing to spend money to expedite the project. The permitting process would still take considerable time. We also heard from many individuals who wished the whole permitting process could be quickened, so that when it's necessary to get the job done, deadlines can be met. I'm sure that will happen under our new administration.

In regard to new home buyers, a few persons in our group indicated how they could have sold twenty to thirty houses to first-home buyers for about $120,000 to $130,000. We'd all like to see this happen, because to talk only about big projects and not the little ones is not really in the best interest of the Commonwealth. I believe we have to be concerned with everyone.

There is a need to have some institutions for financing business growth, and a need for advance commitments from banks. Several people, including those involved in labor, brought up the fact that we have many private and public pension funds available. I believe the total is about $17 billion, of which a portion of these funds could go towards developing some of these projects and programs.

Finally, the credit crunch managed to enter into our discussion. We acknowledge that the regulators did not cause the problem that we have today. We hope that in the future, regulators would work closely with our banking institutions to do some creative things, like split loans that Senator Kerry mentioned earlier, and some other similar ideas. We would like to see the regulators work with our banking institutions, whereby if a loan is of a lesser value today, the loan could continue. In fact, the banks or somebody else might take an equity position that could be very rewarding in the future. But whatever the process might be, we encourage it to go forward so that there would be more credit available. We all recognize that the Raytheons, the Polaroids, and all the other companies came about here because of some good ole Yankee thinking that was put to work and created what we have today.

Summary By
Ms. Elizabeth Kennan, President
Mount Holyoke College

HIGHER EDUCATION

Every one of us today has heard repeatedly that higher education in the Commonwealth of Massachusetts is a significant part of our economy today--both as a supplier of a trained work force and also of individuals who bring the ideas to create new industries in the state, but also as a significant purchaser and employer. What we haven't heard as much of, but what the session on higher education focused on very much, is that higher education is also a countercyclical industry. At times when the industry is in recession or decline, the demand for reentry into higher education goes up significantly. If we see any aspects of higher education in the state today in which there's underenrollment, it is almost always because we don't have the resources to provide and to answer the growing demand for higher education.

We realize that education is a very consistent element in our economy. But the educational system at the moment is under enormous pressure, because it is required to provide an ever more complex academic program for students and for graduate students. It also must provide the infrastructure for laboratories, which is changing year in and year out, as the technological barriers and the field of knowledge moves ever away from us. This means that, for the educational institutions here to provide the quality of academic training which they have always provided, there's going to have to be significant investment in them.

But, there will also have to be significant collaboration among institutions. There are models for that collaboration in the state. Five Colleges, Inc., is one of them; the Worcester Collaborative is another. But the whole possibility of regionalization and sharing among institutions of higher education is of paramount importance as we plan to go forward with the complex educational and academic programs which we need.

However, it is also important to recognize that collaboration in the Commonwealth ought not to be simply among institutions of higher education, but in the whole educational system, K through 12, and the institutions of higher education. We have a unique opportunity in this state--and it was discussed time and again in the session this morning--for the creation of perhaps the most effective and efficient educational system in the nation. Of our institutions of higher education, about 50 percent of the education in the state is public and 50 percent is private. If we can bring that collaboration together to bear on public education in this state, we will be at an enormous advantage. Suggestion was made that we should have a restoration of small incentive grants that will help us to bridge the gap between K through 12 education and higher education, bringing the two systems much more closely into collaboration. We must think as we work in this area, also, of new breakthroughs that will be possible pedagogically. As the technological capacities of the telecommunications sector are enlarging, we can increase the reach from classroom to classroom of the most advanced pedagogical techniques and laboratory techniques, so that collaboration can expand beyond a regional network, and be, we hope, statewide.

All of this talks about collaboration and investment in education around the state, but the fact is that Massachusetts has been disinvesting in state higher education since 1988. But unlike other state agencies, it is very difficult for institutions of higher education to rebuild and restart a program once it has been cut back. At a time when Massachusetts has invested in its higher education infrastructure and particularly in its state system, we must recognize that to reap the benefits of that investment, we must have stability in the funding of higher education. It is absolutely unlike any other state investment because the laboratories and the professorate have to be sustained over time in order to produce the educational progress that we aim for.

In the short term, stability means addressing and answering provisions for second-semester scholarships for students, both in the public system and in the private system, who are right now awaiting news about their scholarships. But another method of stabilization which is on the table, and which deserves discussion, is the possibility that public institutions may retain a larger proportion of their tuition and thereby not only avoid cuts in their individual budgets but use those funds for entrepreneurial ends. And finally, because the quality of higher education in the Commonwealth depends on the quality of education K through 12, and because the educational system is an important ingredient in attracting business to Massachusetts, it is absolutely essential that we restructure the financing of education K through 12 and shift it away from an over-reliance on property taxes.

Summary By
Mr. Thomas Kershaw, President and Owner
Hampshire House

TOURISM and SERVICES

Thank you. We're very pleased to be here. This is probably the first time that the tourism industry has been represented at an economic forum in the Commonwealth. And so, we thank the new Administration for recognizing the importance of our industry to the business welfare.

We are the second-largest industry in the Commonwealth; some of the statistics are interesting. Eight billion dollars in direct spending by our visitors; almost twice that in economic impact; a one-billion-dollar payroll; four hundred million in state and local taxes collected; and over a hundred thousand jobs for people in Massachusetts. We're also located throughout the entire Commonwealth. Every corner of the Commonwealth is involved in tourism. Tourism is a good investment for the state's funds. Every investment that is made in promotional funds returns eight dollars in tax revenue. The tax revenues are wonderful exports. We export the tax billed to other people from outside the Commonwealth, and it's an instant response situation. The decision to come to the Commonwealth occurs usually within a month of seeing some sort of promotion, and the actual expenditure takes place within a six-month period. So it's a short-term hit.

Let me talk about the recommendations that our group had. It was a lively discussion, and there were many more than what I can report on today. I will say that the industry perhaps was a little ahead of the curve on this one. About a year ago, many of us in both the private and public sector decided that a study should be commissioned to review the future opportunities in the tourism industry. A study was commissioned with Harvard University, the Taubmann Center at the John F. Kennedy School of Government for state and local government. That study, interestingly enough, will be released in February, so our timing couldn't be any better. It's entitled "The Visitor Industry in Massachusetts: A Strategic Perspective." A lot of the things that were talked about in our session will be included in detail in that report. But let me just go through a few.

One, we think that there should be a dedicated, permanent funding mechanism established, probably from the rooms tax, to fund the Massachusetts Office of Travel and Tourism, the Massachusetts Convention Center Authority, and the regional tourist councils. We recognize the importance of facilities like the Hynes Convention Center to stimulate the local economy. A second recommendation is that additional funds may be needed from time to time for short-term response to a changing environment. The specific reference was made to the fact that there'll probably be fewer Americans traveling to Europe this summer, but they still will be traveling. They'll just be doing it domestically. So maybe we should have a program put in place in the near term to encourage long-haul--meaning over five hundred mile--domestic visitors to come to the Commonwealth.

Our next recommendation was that Massachusetts be made tourism-friendly. And this requires the cooperation of agencies providing an infrastructure for the visitor, including visitor centers, public recreational areas, and access to Boston. But the key word is cooperation among the various agencies of the Commonwealth to make sure that they recognize that their decisions impact the visitor, and to help them make positive decisions. On the federal level, the suggestion was that perhaps the New England Congressional delegation could bring to the attention of the U.S. Travel and Tourism Administration the idea of promoting regions of the country to sell to foreign countries. And we would probably be the first at the window, because we have as a region dealt much more with them than some other areas of the country. This would probably be a cooperative program, with funds coming from all sectors, both public and private, and would be directed toward overseas travelers.

The next conclusion was that tourism is undermarketed. There was a big section in one of the groups that said that we needed a marketing program for Massachusetts. We feel that whatever plans are made for the Commonwealth in terms of domestic and/or international marketing, we can get a double dip on marketing programs. We can promote tourism not only coming to Massachusetts to look for business opportunities or to locate businesses here, but also to visit here. But, again, it is extremely important that the international and domestic relate to each other. We certainly don't want anything to fall between the cracks.

The international visitors have shown a significant increase in dollar spending. We don't have as many international visitors as we have domestic visitors, but they spend a lot more. And that increased spending has been significant in recent years. We need to get more international visitors. One way to do this is to adjust the per diem that the state employees are allowed to receive when they travel. I don't know if the number is exactly thirteen dollars, but any of us who tried to send one of our business associates on a trip and said we'd give you thirteen dollars a day to do everything you had to do, they'd say, "Well, I think I'd prefer to stay home." And that's exactly the problem. So, we have to bring ourselves into the twentieth or twenty-first century. We must recognize that if we expect these people to promote outside of the Commonwealth, they have to leave the borders of the Commonwealth. Since our ethics laws are structured so that state employees are discouraged from leaving on any official business from the Commonwealth, we have to make some adjustments there.

We need to meet regularly, to coordinate programs and to assess priorities. We need to work with all the regions in the state, with the legislature, with the cities, with the towns, and yes, with our main university, the University of Massachusetts that has a hospitality program and several professors who specialize in this industry. Finally, the retail sector was represented, and they requested that perhaps the Commonwealth consider allowing them to open on the three holidays that they're still restricted from being open: Memorial Day, Fourth of July, and Labor Day. Thank you.

Summary By
Mr. John Rowe, President & CEO
New England Electric Systems

ENERGY and ENVIRONMENT

We all concluded in our meeting that Massachusetts has a sound infrastructure and the sizzle of entrepreneurial opportunity. Essentially, as we look at what's going on in the areas where energy and environment intersect, we begin with a relatively clear and successful set of public policies.

Supplies of electricity and natural gas, for example, are generally adequate. And, Senator Kerry, the key thing in keeping them that way is to pursue the natural gas pipeline applications which you have been helpful with to date.

There is a clear shift away from oil toward natural gas. My own company, for example, was almost 80 percent oil-fired the last time we had a Middle Eastern crisis, and is under 30 percent oil-fired today. There is a clear and broadly held social priority in favor of energy conservation, for its economic and environmental potential, and that is working well. To help bring energy conservation measures to more and more residential consumers, a clear assurance needs to be made that payments to such consumers for energy conservation materials will not be taxed at the federal level.

We find, in addition, that in this recession, energy industries are continuing to invest in new plants. Extrapolating from my own company's experience, I would think utilities will be spending more than a billion dollars on construction of new equipment in Massachusetts this year. We also find that competition, with all its virtues, is increasing from the generation of electricity to interfuel competition to competition in energy services. We are, in Governor LaWare's words, a self-financing infrastructure, and that is all to the good. I must say, however, that the cost of good works is real in our area as in others. Some of our industrial consumers believe that the costs are rising too fast and would contend that we must investigate whether they are unfairly burdened with those costs, as compared to residential consumers.

Turning to the entrepreneurial opportunities which environment affords, we find that Massachusetts is blessed with a large number of institutions working on pollution control technologies, on monitoring devices for process and effluent control, and on energy efficiency. We also have makers and distributors of high-efficiency light bulbs, which can get the same amount of lighting service with one quarter of the energy, and we have a great many service firms.

One of the key questions that came up in this portion of the discussion is, "How do we help our service firms export?" Some ideas with respect to this sector were: increased marketing assistance and help with establishing networks, trade missions, and anything which can be done to help with capital availability. The whole issue which you have heard so

much about today with the banking community affects the entrepreneurial sector of the energy industry as well.

What is it that we would seek? What is it that we collectively wish to receive from the government of our state and from a new administration? First, I would say we need clear policies, applied with procedures which are both flexible and expeditious. Everyone has his or her favorite concern in this regard. In my industry it tends to be the so-called integrated resource management rules, which we believe to be micromanagement. It is clear that incentives should be explored wherever they may fit into the overall structure of government regulation. And it is interesting that across the board in our meeting, the inherent necessity of underlying principles of regulation were broadly accepted. We need constant cooperation. We need to have energy producers feel that they are welcome when they deal with state agencies, and not be received with hostility. We need entrepreneurs to feel that government understands some of their difficulties and is willing to work with them. We need consistent attention to costs. I think there is the feeling across these industries that we have a clear sense of priorities on the environment-sensitive initiatives. We sometimes forget that we must control the costs of developing and implementing such initiatives if we are going to have as many as we want. Finally, I think what we need is a clear sense of proportion, a clear sense of purpose, and some sense of humor as we work our way through these problems. We believe that Governor Weld has all three. We know that Secretary Tierney has all three, and we hope that those of us who deal with them can show the same. Thank you very much.

RECOMMENDATIONS FOR ACTION

Synopses by Panel Moderators

The five afternoon discussion sessions were intended to generate recommendations for action based on the ideas discussed at the morning sessions, which focused on specific industries. The afternoon sessions, moderated by Senator Paul E. Tsongas, were focused on more generic issues regarding business in the Commonwealth, issues which cut across industry lines.

[Senator Tsongas individually introduced each panel moderator in the following sequence to review the output of their panel sessions. The following comments are excerpted from the Tsongas remarks.]

A synopsis of each of the five afternoon sessions follows, as reported by the discussion leaders from each session.

Lynn Browne, Senior Economist at the Federal Reserve Bank of Boston, moderated the session on "Securing Capital To Finance Growth," or how the recovering Massachusetts economy will provide needed financing to growing businesses.

John Rennie, Chief Executive Officer of Pacer Systems of Billerica, has long been active in industry efforts to support education and job training programs. His discussion session focused on "Training a Quality Work Force."

Micho Spring, Chief Executive Officer of the Boston Telecommunications Corporation, moderated a discussion on "Making Government More Responsive to Business."

Thomas Claflin, Managing Partner of Claflin Capital Management, Incorporated, a Boston venture capital firm, reported on his panel, "Ensuring Continued Business Innovation."

Finally, Michael Campbell, Chief Executive Officer of Nova Technologies in Gloucester, and chairman of Smaller Business Association of New England's International trade committee, moderated a session on "Increasing Exports."

Ms. Lynn Browne, Senior Economist
Federal Reserve Bank of Boston

SECURING CAPITAL TO FINANCE GROWTH

I think it was sort of a good news-bad news type of situation because, on the one hand, the message came across very clearly--both from the borrowers and the lenders--that indeed, there is a credit availability problem. The banks are feeling very defensive: even when they are lending they are quite defensive, very concerned about protecting capital. I think one of the messages that was made very strongly to the borrowers was to be realistic. When you go to the bank, even when you're in trouble, be straightforward about it, because otherwise they are going to lose confidence.

One of the most important messages from our group was the reiteration of something said earlier: the importance of restoring bank capital. I think this was seen as important, not only for its direct impact upon the banks' ability to lend, but also as a confidence-engendering factor. Just to have it reported that one of the big banks in the region actually made significant profits one quarter or one year would, in itself, be an important factor. Again, there was very much an emphasis on bank capital and strong support for bifurcation.

One concern that was raised by recent developments was that the too-big-to-fail policy was creating serious competitive difficulties for the smaller banks. Even smaller profitable

banks had difficulty persuading municipalities and other institutions to keep their funds with them. And, as a consequence, the smaller banks were inhibited in their lending process. They had to remain much more liquid than they would have otherwise.

Beyond the too-big-to-fail policy, the issue was raised of more general policy statements at the federal level suggesting that our entire future lies with large banks. This puts the smaller banks, who play a key role with the customers they know very well, at a serious competitive disadvantage.

Support was expressed for tax incentives to move some of the real estate property owned by the RTC into the market to get some liquidity, some action, in the real estate market. But it was suggested that this approach should be followed by tax incentives and not be exclusively limited to RTC properties. I guess the phrase was, "Why wait till its dead before you try and revive it." Any tax incentives should be more general to get the real estate market going somewhat, but a great deal of care should be taken to encourage longer-term holdings so that we don't have quick-flip situations. That situation is what got us into trouble before.

It was also stressed that we really do need to take some innovative approaches to dealing with this incredible inventory of unsold properties. There are currently people who want them: first-time home buyers who have needs, for example. It was suggested that we

could create some sort of enterprise zone to attract businesses into the area, taking advantage of our low-price properties.

It was also mentioned that there are pools of capital out there. There are lenders. While the banks are certainly viewed as central to the lending, there indeed are other parties out there. For the right type of businesses, in some cases funds may be found from asset-based lenders. This, however, can be painful and a step backward. Also, it is possible sometimes to raise funds through joint ventures. This means that for certain types of businesses, particularly non-real estate businesses, there may be funding. So, don't give up, but it is a very long and difficult process.

There is also a sense that the public pension funds are a potential source of capital. Indeed, the quasi-public agencies, such as MIFA, might play a role as a channel through which these public pension moneys might be directed, either into banking or directly into lending opportunities themselves.

I think there were a lot of interesting ideas from our group. Clearly, there is a sense of a very major problem. However, we really must distinguish between the real estate situation and the manufacturing situation. They are somewhat different. And, as we think of policy responses, what is appropriate for real estate lending may not be what is needed in manufacturing and other areas. Manufacturing is seen as perhaps a more promising area in the short term. Thank you.

Ms. Micho Spring, Chief Executive Officer
Boston Telecommunications

MAKING GOVERNMENT MORE RESPONSIVE TO THE NEEDS OF BUSINESS

Our session was a poignant reminder of the significant distrust that still exists between the private and the public sector, and of the importance and timeliness of this dialogue that we're beginning at this conference.

There were specific discussions about stabilizing both the direct and indirect costs of government--direct costs being taxation, and indirect costs being the costs of regulation. One specific problem area that almost all the participants cited was capital gains. Participants recommended that capital gains should be cut both at the federal and the state level. The second area was unemployment and especially workman's compensation, which, as one participant cited, could be as much of a problem as auto insurance was a few years ago.

Jim Carlin proposed that the state require any agency promulgating a new regulation to first issue an economic impact study encompassing the impact that regulation would have on both business and state revenue. There was a lot of consensus behind that.

There was also a recommendation that a bipartisan group, including federal, state and local government, be appointed to eliminate contradictory and unnecessary regulation that affects a lot of businesses.

In addition to capital gains, two taxes were singled out for further study. One was the estate tax; the other was the unearned income tax. There was also a plea from the government representatives that we not allow ideological discussion of taxes to sidetrack the continued development of an economic agenda for the state that has been started here today.

In reaction to John LaWare's challenge that we revisit MassBank, a member of our group from MIFA suggested that MIFA and other authorities are capable of doing a lot of that but are prevented by nineteenth-century statutes from financing the kinds of projects that we're talking about. These statutes should be looked at from the perspective of the need for these projects to go forward, particularly those that create not only jobs, but enhance commerce.

One of the panelists closed by reminding business of the need for business to get involved directly and personally, not only through lobbyists and associations, but in further dialogue with elected and appointed officials and in participating in hearings and other means of effecting the process.

We all came away very aware of the long road ahead of us as we continue this dialogue. We also realized how important it is to develop more trust between government and business and to continue to promote a healthy Massachusetts climate to others. We need to start doing some of that promotion at home. And we need to have, above all, government that is stable, predictable, and which encourages investment. Thank you.

Mr. John Rennie, Chief Executive Officer
Pacer Systems

TRAINING A QUALITY WORKFORCE

Training a quality work force is not an antiseptic subject. This is something where we are dealing with the other kinds of capital: the work force, the people in the state, now and in the future. So, there are many aspects of this that are very human in nature and don't lend themselves to anything but really thoughtful consideration.

I am going to try to cover what we did. The order in which I mention it is of significance, since I had to chronicle what we did almost in the order that the questions or comments came up.

In this area we are dealing with at least four major segments of the work force. First, we have to look at the children and young adults that are in our system now. Basically, the vast majority of young workers in the year 2000 are already in the school system, and so, as a result, preparation is already underway for our work force ten years hence. But we also have the poor, minorities, immigrant populations, which, in many cases, are not even included in our work force statistics and related considerations. This is another segment needing a number of different treatments.

We then have the elderly and retired people. In times when we are doing well, and have a tight unemployment situation, oftentimes we have not taken full advantage of this area of talent and capability.

Finally, we have the unemployed, or soon-to-be-unemployed--or people who are working in industries that are fading and need retraining so that they can reenter the work force and new industries. This is a vast area of consideration. Each part of this, in a truly good approach to the work force of the future, must be addressed. They have different characteristics.

We started out with a little caveat that I'd just like to state at the outset, because this is dealing specifically with business, and work force considerations. We agreed in session that the aspects of education and training that have to do with an informed citizenry, and the more broad aspects of education, are very important and very much in our minds. However, the nature of the discussions today focuses on the work force-related issues--the utilitarian aspects, if you will, as opposed to the other, more general aspects of education. But that does not--in any way--convey that we don't feel that that is extremely important to vitality of the community and of the Commonwealth in the years to come.

We have unique capabilities, institutions, and history in this state that we should address. And we should be able to address our problems better than most states, if not better

than all the other states. So, the trick will be in the variety of areas, both in the public and private sectors, to make the most of those capabilities and institutions.

The first theme that came up several times is that we have to look at the whole educational system as a kind of continuum. Basically a complete system, with a capital "S." When we look at the pre-schools, K through 12, the transition from school to work segments, and post-secondary education, one fits into the other. As a result, we must look at the treatment of different sectors of the educational community. We must integrate it with the following segment, how following segments are working. We need to pick up students, all students, at various levels, even those who opt out of the system, and catch them in somewhere else in the system. We need to be concentrated on outcomes.

There was a sense that business, and this came up as a theme, needs to collaborate with the educators in creating this system, under the umbrella of the public policy makers. Indeed, the Massachusetts business community already is involved with education to an extraordinary degree. However, the quid-pro-quo, it was felt, is that business has a right to have measurable goals and outcomes, to be able to measure progress towards these by means of indexes both statewide and locally. Goals, progress, the time frame of that achievement.

There was also an expectation that we would see more decentralized control, which is somewhat the fad in education these days anyway. However, decentralized control in a

thoughtful way and in a symmetrical system, where decentralized decision-making and authority is countered or paralleled with decentralization of resource authority as well.

Collaboration, again, was emphasized. The point was made that retraining needs among the workers is very important. We first need to upgrade skills of those that are employed currently and those that become unemployed. We need to bring them up to current standards for the industries that they might be in.

Of course, we also have the "newcomers" coming into the system. Not only those that fell out of the system earlier, but immigrants and others that just come into the system from outside. So parts of this overall continuum of education must address the needs of newcomers as well.

There was a recommendation that the preschool-through-12 area have in its fabric an orientation more towards work-based learning. That is, to impress on the students the importance of education to their future in every way possible, and also the relevancy of what they are learning to the world of work and the world of achievement outside of just industry, but other pursuits they might take.

Several people made the point that we need to seriously improve the access to and success of minorities in the system. This would include programs to improve the role models in the system, the numbers of minority teachers and so forth, which are woefully

inadequate currently. Or, for example, special efforts to bring successful minority professionals into closer touch with minority youth. It is most important when we think that the Commonwealth's school system is increasingly populated by minority and immigrant students; the projection is that something like 35 percent will be minorities by later in the decade. We have a very small percentage of minority teachers. These kinds of things need more attention. And certainly on the federal level, the recent changes relative to scholarships and so forth do not help that kind of process.

We need to recognize that there have been tremendous changes in the supply and demand. (And this goes for everyone involved, policy makers as well as educators and those of us in industry.) The types of children coming into the system and their background are different than when most teachers and most of us were being educated. And, therefore, the input to the system is quite different.

On the other end, in terms of industry, the demand is changing. In the '30s we had a 75 percent dropout rate. But at that time, there were a lot of jobs that dropouts from high school (and my father was one) could be hired for. The problem is that in the Commonwealth, and in the country in general, the requirements for jobs are steadily going up. You've probably heard that by the mid '90s or so most jobs will require at least two years more education than high school. That presupposes that we're talking about a regular, legitimate high school graduate. If the high school graduates fall below that level, then there is even a greater disparity between the job requirements and the characteristics and

capabilities of the graduates. So as a result, we're at a serious disadvantage in many of these areas, in grasping and adjusting the system.

In the opinion of some of the panelists and other knowledgeable people, human resources policies that we employ in schools and in all the human resources aspects of training are way behind many similar policies in other countries. And this again points at a serious disadvantage. This points out that systemic reform is required--not just tinkering with the system, but major efforts to change the way we're doing business in this area.

Several people indicated a lack of adequate data in this area. Basically, we lack any credible database that tracks students, and what happens when they get out of the system, either having graduated or not graduated. We lack databases on the outputs of our training systems, how successful they are, and how relevant they are to the world around us.

We also lack databases on the results of collaboration, that is, school-business partnerships and other such areas. Until we know what is happening it is difficult to come to grips with the needs of reform. This is a recurrent theme, and fixing it was considered central to future education policy and progress.

It was suggested that a multidisciplined team be put together to review global systems and to develop a model we could use to see where we are strong, where we can improve, and where we fall short. It was pointed out that there is a terrific irony in this state: when

the economy is good (and I know this was true of my own company; I was asked a number of times) and unemployment is low, we often say that the lack of skilled workers is a constraining influence on growth, at least growth in Massachusetts. Yet we fail to invest in slow periods to give us the high-quality labor force we know we will need when the economy improves. We have an opportunity to act on this now.

Looking back at some of the things I've said, disparities, changes in supply and demand, disparities between the characteristics of graduates and the needs in the job market--this problem could be much more serious the next time that our economy blossoms and comes back, when unemployment drops again. It points out the importance of preparing and using all the resources we have in the work force, which includes many of the poor, disadvantaged and retired people. In many cases, they are forgotten about in terms of assets that would allow our work force to grow and improve in value to the Commonwealth.

It was pointed out that the system of financing needs restructuring. In fact, some things, such as early education, the treating and catching of youth at risk, may be in addition to what we have now. Nevertheless, we have to consider the costs of not doing it. This is a case where, in many instances, we can see a direct payback for every dollar that we spend in improving our system.

A couple of good models were brought up. One was the Safe Neighborhood Program in Boston, where they're not only improving the educational experience, but are also extending it in relevance to work and involvement with businesses in the area.

With regard to job training in the state, there were three specific recommendations: First, to consolidate the agencies responsible for job training in the state. Second, to have a central, current database that provides the nature and magnitude of these programs, the results and outputs of the programs, and how they do afterwards. Finally, to re-evaluate and, perhaps, to reorient the role of the regional employment board. The session participants felt they were not all that well-prepared or well-qualified to carry out their planning role. Perhaps they should be playing more of a sounding board function and that of a gauge of relevance to the surrounding economy and society.

With regards to technical education, they felt that often this was a piece missing and not related very well to the rest of the system. There are lots of programs that work. In fact, this was maintained by one of the attendees. This system has more exposure to multiracial, multicultural, and economically disadvantaged children than the other parts of the system, at least in terms of getting them out and trained for jobs. The question was, Why can't it expand? They feel there is a massive retraining effort that is needed. This capability, I suppose, along with the community colleges, can provide a tremendous resource for that retraining effort.

In the view of our group, we must adopt an underlying principle that every child can learn. We need to set higher standards for them. We need to treat all the children in the system, including those at risk and those that are disadvantaged, to make sure that we do absolutely everything possible to let those children learn at their legitimate and their best possible rate.

Finally, it was mentioned that twenty years ago, the remedial programs at the higher education level were in place to help minorities move through higher education. It was felt that over the next twenty years we could do away with those programs because, in fact, any deficiencies would be fixed at the lower level. Indeed, that has not been the case. In fact, now those programs are needed as never before because, at the lower levels, we are not preparing minority children (and many others) adequately. Financial aid, in at least the opinion of one of the attendees, has moved to produce a sort of welfare mentality amongst the student population--they are branded as disadvantaged. They come into the system and many rules are set which they cannot easily contend with.

Overall, the last point that was made--and it is an important one--goes to the whole issue of the teacher work force and the need to reform and improve the ways teachers are trained. In our companies we have time on the job for engineers, technicians, and the like to engage in growth and renewal activity. They keep current with their technologies. Teaching should be no different. It is just one element of teaching and improving the teaching work force, but it is important that we provide time for teacher renewal and growth as well. The

average teacher in the Massachusetts system is forty-seven years old. The various rules, regulations, and various fiscal policies have essentially eliminated a whole generation of teachers from our teaching work force. This teaching work force is getting older. Many of them are not up to date on pedagogical skills and technologies. Furthermore, the system needs to be reformed to allow a higher quality to develop and to allow new teachers to come into the work force in real and vital ways.

So these were some of the things that came up. It was a very intense session. I thank the panelists very much and those who attended this session. Thank you very much.

Mr. Thomas Claflin, Managing Partner
Claflin Capital Management

ENSURING CONTINUED BUSINESS INNOVATION

Our group dealt with the issue of ensuring continuation of business innovation. It was pointed out at the outset that entrepreneurship is not a logical process. Basically, people have the desire and the urge to start their own businesses. They are compelled to do this because they have a good idea and because they really want to run their own business.

The issue was not so much how to raise capital, but how to create the environment to allow companies to develop in a proper way. Entrepreneurship is very much alive and well. We simply have to unlock the resources to encourage it and to nudge it forward. In this regard, as far as capital is concerned, the angels (groups of individuals that provide the initial capital) are extremely important. Not too many people realize that most capital for small businesses comes from individual investors. The professional venture capital community, or government sources of funds, represent probably less than 1 percent of the total capital going into small business enterprises. Because the individual investor plays such a crucial role, issues like cutting the capital gains tax for productive assets become very important. So does the onerous estate taxes, because what we are in effect doing is driving potential angels to Florida. Hence, they are limiting their investment in our own market.

The discussion then shifted to what was happening elsewhere in other states. We had a brief discussion of what was going on in California, which as you know, is a very hot market for business innovation. It was pointed out that an enormous amount of capital is being attracted to California from the Pacific Rim, from Singapore and from Japan, principally. A number of the law firms operating in California have offices in Tokyo and elsewhere. They are brokering deals and raising capital for California companies.

Now, we can do that here, in Massachusetts. And we need to concentrate on trying to develop that particular capability. We need to do it by creating a favorable climate to bring capital into our state.

We also discussed the infrastructure issues. We raised the idea of trying to come together and have government and private groups work with regional educational institutions to focus on a few key technologies that would lend themselves to development in our state. We would propose to organize in an effective manner, and go after both public and private capital, federal government and state capital, to sponsor those kinds of projects. This was a discussion that revolved around the magnetics laboratory that recently was lost here. The same kind of approach could also be applied in the environmental area and the transportation area, which are key to our infrastructural matters.

On the issue of regulation, we felt that it was very important, from the smaller companies' viewpoints, to get rid of oppressive regulation. We did not talk about too many

specific things, but one idea that did come up was the Blue Sky regulations that cost a lot from the point of a company and serve to enrich a number of lawyers locally.

To sum up, we felt that there exists at this point a tremendous opportunity to have a change in attitude. This change in attitude is crucial to creating an environment for encouraging new innovation. We feel that the role for the government is to instill a strong sense of enthusiasm for the development of small businesses. We saw it as the role of a coach rooting his team on to victory. Thank you.

**Mr. Michael Campbell, Chief Executive Officer
Nova Technologies**

INCREASING EXPORTS

We had a lively discussion started out by the panel, summarizing their experiences. One of the very interesting things was that we did not pull the audience from manufacturing--the people that we are trying to target by this whole exercise. I think there was one manufacturer--and we probably had thirty or forty within that group--which tends to be one of the problems that we have as far as international trade is concerned.

One of the issues that we dealt with included the importance of getting the CEO of the manufacturing company involved early. Generally, in the cases of Commonwealth companies doing well overseas, you'll see that the CEO was involved in making a decision to grow overseas very early in the company's life. An Wang's first international orders were made when the company was probably below $200,000 in sales.

There are a lot of resources available within the Commonwealth, through trade associations, through federal government agencies and through state government agencies. They are all working very hard and provide a phenomenal base of resources for business to get into international trade.

There were some concerns expressed that financing for international trade orders would be looked at almost like a poor cousin. Again, capital needs to be freed up so that the accessibility would be equal to that of the more domestic uses. Hand in hand with that goes the need for knowledgeable lenders. Within the banking community, many times if you get outside the Boston area, there is not necessarily a good understanding of international orders. Very often, the bankers you are dealing with are uninformed as to what is involved. Finally, there was a feeling that we needed to reduce some of the red tape in those federal agencies that are participating in underwriting financing needs.

There were concerns about the protection of intellectual property rights in dealing overseas. This is a concern in the software industry and in a lot of the high tech companies in Massachusetts.

There was some discussion conducted on business ethics overseas, and how they can vary, depending on the country that you are dealing with, and the importance and implications of the Federal Corrupt Practices Act.

Finally, there was an off-the-cuff comment made about the good impression that American goods overseas make on an ongoing basis. We have a lot of comments about quality. I think America and quality still go hand in hand.

Dealing with the federal government again, we need to streamline accessibility in all agencies, particularly to the small to mid-size businesses.

Back in 1985 or 1986 I testified in Washington regarding the consideration of something that would really jump-start the interest of the manufacturers getting involved. That would be the consideration of an export tax credit, similar to the investment tax credit of 1981. If you recall back to 1981, that was quite successful. I think economists will bear me out that that had a great deal to do with benchmarking the success that we had later on in the mid- and later '80s. So, I think that that tax credit would be a very useful government form, at the national level, to help jump-start programs throughout the country.

Coming back to the state, the consensus was that we would continue to build on what the state has done in the past. The Export '90s Program, as started by Governor Dukakis, was extremely successful. Governor Weld has agreed to continue on with the International Trade Advisory Board, which is a really big step forward in creating an awareness and an ongoing education that is necessary to the business community. It is a hard sell. When those of us who work in trade associations try to put on international events, they are hard sells. You have to keep going back to the well. But, for quality and the number of types of different products that we have in this Commonwealth, there is no reason why we shouldn't be doing a lot better overseas. I tell you, we have the guns to do it.

Another aspect would be looking into continuing on underwriting the financing. There was a program started in conjunction with Eximbank and MIFA. It has been quite successful and very helpful, as far the small- to mid-size businesses are concerned, in that it cuts down the paperwork, the time, and the fear.

Getting back to the CEO's fear in getting involved in international trade: there is some promising work as far as the cities being involved. That's another good area. It brings it to the local level. It does not just isolate the needs coming out of Boston.

Within the state itself, I think we need to continue the efforts. We need more money as far as better funding for the Office of International Trade and Investment.

Some of these other issues we've dealt with in previous years, like considering trade offices abroad, beefing up the efforts through the existing MassPort trade offices, etcetera.

Tourism overseas is an unsung hero. My family also has a small tourist business up in New Hampshire. And, I can tell you, this past year, the number of people that we were registering from overseas is just amazing. And we already have this; this is already in place.

Another recommendation was expanding the MIFA-Eximbank support to do slightly larger deals, with the object of breaking down the paperwork that goes along with it.

Then, finally, continuing the high profile of the governor in international trade: I know that did wonders with the Export '90s program. It has taken this kind of leadership to get small to mid-size businesses interested.

In the past week I received two or three inquiries. One was from a company, a government contractor that was a referral from Jack Rennie. They are not within the state, but this gives you the idea of the naivété we have: they were doing about $800 million a year in sales, and they are just now deciding how they might be able to get into international trade. They have a lot to offer. They don't even have an international department.

Another one was from a billion-dollar company that has an office in Boston. They just wanted to network with people that had experience in international trade. So it is not just small to mid-size businesses.

Governor Weld, I've been amused by how the press is dealing with this Iraqi issue. Whenever they talk of the Republican Guard, they talk about the "Elite" Republican Guard. In that same breath, I hope the press can remove the word "junket" whenever the governor gets on a plane to go overseas to get business for the Commonwealth of Massachusetts.

[End of panel presentations]

CLOSING REMARKS

Senator Paul E. Tsongas

I have had my experience in trying to turn around cities and colleges and corporations. The key component of that is leadership. I think you should have great assurance that in the Governor and in the Senator we have that. So, it is quite appropriate that I now turn it over to the Governor for his remarks, followed by the Senator for his closing comments.

Governor William F. Weld
Commonwealth of Massachusetts

Thank you very much, Senator Tsongas. I'm not going to try to summarize, because that has been done by those who preceded me. I thought I would just tell you a few things about myself, so you can judge what the path from here is to be like.

The first thing I'd like to tell you about myself is that, while I am a fiscal conservative, I am not risk-averse. Anyone who has dabbled in the venture capital area and received returns of 150-to-1 on his investment, as I have, would never be risk-averse. I think it sends a message that the man I chose to lead the Economic Affairs Department is a venture capitalist by background, rather than someone from another sector of the economy.

I really don't mind rolling the dice. I don't care in what shape or what kind of package an idea comes in. If it's Keynesian, that's okay. If it's been tried before somewhere else and failed, that is not necessarily going to kick it out. There are a lot of great ideas I've heard here today. Some of them are slightly nervous-making, perhaps, from some people's point of view; while the MassBank idea, I am sure, struck terror in the hearts of many listeners at lunch today.

Joe Faherty has an interesting proposal, which he has given to me and Dan Gregory, for economically targeted investment by public and private pension funds. Well, the most terrible specters can float before your eyes when you think about doing good works with the capital of pension funds. Yet I think there is something there that is worth pursuing.

Some of the ideas that were kicked around here really just gave further detail to areas I was already thinking about. At the manufacturing session, I threw out on the table, "How about a tax credit? Would that be a good idea?" Now, my consciousness is somewhat raised. I realize you can try to skin the same cat through accelerated writeoffs; through a differential tax rate for income, which is the product of exports; through trade enterprise zones--a lot of different ways to approach the problem.

Some of the ideas I already had. The marriage of tourism promotion with trade development is a drum that I've been thumping for some time. I led the applause on the junket suggestion because I intend to lead two trade missions this year: one to the Pacific

Rim and one to Europe. Lieutenant Governor Cellucci has volunteered whatever is necessary to maximize bilateral trade with Italy. Between the two of us, we are going to maintain that high profile. I really don't mind if people want to write stories using the word "junket." I'm certain that it is an area that I want to go.

Some of the ideas already have been done. Bill Crozier suggested this morning that one of the top priorities should be fixing the railroad in Wellesley. Selectwoman Johnson nodded her vigorous approval. We, of course, took care of that with a transportation bond bill a few days ago. Some of what I heard is not even at the idea stage, it's just facts, but it may spawn ideas. Tom Flatley mentioned that the State owns $300 billion in real estate, down from $400 billion a few years ago. But, when I hear the figure $300 billion I think that is food for thought as we are examining how to get ourselves over the fiscal situation that we're in for the next six months or so.

Another thing that you should know--perhaps it is a corollary of the first--is that I am, and I think the administration is, prepared to take radical measures. In fact, in a way we almost prefer taking radical measures. I am very much prepared to eliminate entire programs if it seems like a cost-effective thing to do--even if they are regulatory programs, even if they are sacred cows. I am also prepared to spend a buck to make a buck. In fact, I am prepared to spend quite a few bucks.

As my dowry to Sarah Mann, the new head of the tourism office, I gave her an extra $4 million for next year. She did not even have to ask. But I am persuaded that there is a 7-to-1 return in government revenues from tourism promotion, particularly when we've fallen off quite a bit from where we were a few years ago. I think that marginal dollar may return even better than 7-to-1. So I wouldn't be surprised to see that account grow even more next year, if we get out of the woods a little bit and get some flexibility. If an idea is worth doing, it is worth doing right. So I don't mind sinking a few deep shafts. Governor LaWare talked about gutsy lending by banks. I am prepared for gutsy spending, if it is something that makes sense and seems designed to promote economic growth in the Commonwealth.

I am a capitalist in the sense of believing in the importance of financing mechanisms; my family used to be in the investment banking business. I do not view this as a zero-sum game, where there is only so much money to go around, and if we don't spend it here we will spending over there. I think that creative financing--those of you in the finance business know--can create value that would not otherwise exist, if somebody didn't come along with the creativity to devise the new mechanism. I plan to push at the edges of the MIFA envelope. Joe Blair is going to get thoroughly sick of me.

The sort of thing that drives me crazy is a matter Micho Spring mentioned: that perhaps MIFA is already in position to achieve some of these objectives, but there is some nineteenth-century statute that precludes it. Perhaps that is what I mean by not being

risk-averse. I am only too happy to put my shoulder behind the effort to sweep away that type of obstacle, and move to new ways of approaching and financing economic development.

A third thing you should know--and perhaps I should not admit this--is that I'm somewhat more optimistic than a number of people are about the intermediate-term future. If you look twelve months down the road, I think things don't look too bad. I always think of Maynard Keynes himself, who, when he was at Cambridge University in England in the '30s, was in charge of one of the portfolios of one of the colleges. He came over here and he bought up railroad stocks, which were selling well below book value because he did a fundamental economic analysis. He said there is nothing wrong with these railroads. It is just that they are in very bad order, and so everyone hates their stock.

I tell you, if I were free to invest--which I am not--I would be out there buying up bank stock to beat the band. I think that there are many companies which are effectively priced well below book now or what book should be. In the words of one speaker this morning, don't let accounting principles dictate economic reality. So I think that is another clue to the direction I hope to be able to take.

I think that this morning's proceedings indicated that there is a tremendous amount of common ground between Senator Kerry and myself. But I will be interested to see how much of this strikes responsive chords with the Senator, given the fact that he has already

introduced legislation mirroring some of the right-wing tax policies that I plan to unload on the citizens of the Commonwealth at the time of my 1992 budget submission.

I tend to agree again with Joe Faherty, the AFL-CIO leader, when he says that capital should be at the service of labor. I do think capital should serve us all. That does not mean that you vote with labor against capital. It means that the purpose of the capitalist system is to enable us to grow economically more than we would in another economic system and, thus, improve everybody's living standards. I have that constantly in mind.

The fourth thing I would say is that, in terms of the principles or instincts that I bring to the table, they are fairly run-of-the-mill conservative. The relationship between government and business should not be adversarial. We need to roll back regulation, get process out of the system, and not let government regulation take on a life of its own.

From what I said this morning--about my tax, regulatory, and fiscal policy spending decisions--I am absolutely on board, and do not need to be convinced of any of those items. I think the market forces are very powerful. I hope to be able to use them, rather than fight them, to the extent that government is helping to reinvigorate our economic activity here. I don't want to swim upstream. I don't think that we have always observed that principle in the past in this state. We have, on occasion, set our face against market forces. It is very tough to get anything done when you set your face against market forces. That is not a mistake that I want to make.

Finally, the most important thing for Senator Kerry and me to be thinking about, coming out of this meeting, is follow-through. This should not become the penny that was dropped in the well and then, three months later: "Yeah! What a terrific conference! We all had a great time. Good reception afterwards too." John, I suggest that you and I be the follow-through committee, so that if nothing comes out of this, we will look stupid. It won't be our staff that will look stupid.

I was out with Howard Foley and his troops a couple of nights ago. Howard gives himself a report card, not necessarily giving himself an "A" grade. But it is a list of everything that the High Tech Council wants to do every year. At the end of it, they give themselves an "Accomplished" or "Not Accomplished" or "Tabled" report on each agenda item.

I think that Senator Kerry and I can very easily compile, with the assistance of staff, a "To Do" list, an agenda item of every idea that was put on the table by anybody here which has any capability at all of being implemented by action, either at the state, federal, or municipal level. We could circulate that to every attendee at the meeting in the next couple of weeks. Then, in a period of time to be negotiated--perhaps 60 days--send a follow-up report: "Achieved," "Failed" or "Legislation Pending." So that you can see what we've done, or what new departments have been set up. Many of these things are purely executive and do not require legislation. But that will give you an ability to give us and the conference a grade down the line.

I think it is trite to say it, but if we do our job right, this should be a beginning when we walk out of here, rather than an ending. Thank you very much. Senator Kerry.

Senator John Kerry
United States Senate

It is my privilege to say a few words of thanks. I'd like to pick up on something that Bill did. I would also to share with you a couple of thoughts about myself.

One of the great difficulties, as a Democrat coming from Massachusetts, given history and also some of the issues that are forced on us in Washington--whether it is John Tower or Central America or the Far East, Gorbachev, or whatever--is that we vote on an awful lot of things. We are expected to know a little about a lot and sometimes we get to know a lot about a little. Perhaps the best thing that you can look at us for is a recognition that we really only know a little about a lot. This may be the safest way of preventing any of us from stepping out with the sense that, somehow, we have got all the answers.

The danger in the issues that we deal with at the federal level is that it isn't easy to break through on economic issues. Paul Tsongas, frankly, did a hell of a lot better job in his term than I probably did with respect to that.

But I am a passionate believer in entrepreneurial effort and in the need for government to try to create a framework which unleashes that energy and does not restrict it. I served as a member of a five-person competitiveness task force with Jay Rockefeller, Max Baucus, Jeff Bingaman, and Pat Moynihan. We made a lot of recommendations, many of which, incidentally, were seized upon by Ronald Reagan and put directly into the budget.

Some of them became part of the trade bill. I have legislation introduced which I think is important, to try to change the antitrust laws, to recognize the way in which the Japanese with MITI and the Deutschebank and others are competing in this world...and to recognize that we have to get on a playing field that is more even. Our businesses cannot continue to work from a disadvantaged point. I passionately fought against the retroactivity of the 1986 tax bill. I think much of what we are reaping today is a harvest from that bill, whose risks I warned about even then. So I am someone who shares with Bill a feeling that we've got to be willing to take some risks. We've got to change the way we're doing business, the business of government. If there is any lesson of the last few years, it is that. If your ears are at all open and your eyes are open and you're listening to people, you cannot help but take away from this past experience a sense of urgency in our need to deal with that. It confounds me that it takes five years for somebody to get permits to move forward on an appropriate and needed project. It's wrong. It confounds me that there are such obvious leftovers from a different age of politics, if you will, that restrain us from reacting to this new marketplace in a host of regulations that presently exist. And I'm quite confident that, without giving up any of the commitment I have to a number of social principles and objectives, one can change those things and create a better relationship between government and the private sector.

I had my chance to talk this morning and I'm not going to abuse this afternoon's session and go on at greater length. But unbeknownst to many of you, I had the privilege of starting two very small businesses in this state. One was my own law firm, which I had for

three and a half years before I went into public service. The other was a very small retail establishment, in which I sold my interest a few years ago. It celebrates its tenth anniversary this year in Faneuil Hall. But at least in those two occasions I have gone through the pains of withholding taxes and permitting and many of the things that many of you face on a larger scale. I must say to you that it was a very interesting and eye-opening experience. I share with Bill a total commitment to be held accountable for what can come out of this. I'm willing to expend some of my political capital, whatever size that may be, in an effort to guarantee that we do take steps on a number of the things that have been put forward here. I very much want a targeted capital gains tax reduction. I'm willing to go to a zero tax, as long as its targeted towards real risk-taking, real job creation, and not low-risk investments or nonproductive investments to the economy. The great difficulty that many of us were put in two years ago was that the President gave us the Jenkins proposal, which was a two-year fire sale that regrettably said nothing about the deficit that was going to be increased concomitantly as a result of the tax expenditure therein. So I believe in truth in budgeting. And I think that in Congress we have as much of a problem as Bill faces here, if not more. That's why I voted against last year's budget, and the one the year before. And I intend to go down there with a vengeance this year to try to respond to our needs with respect to the deficit and the interest rates and the whole issue of federal fiscal responsibility.

Out of today has come a remarkable expression of your cooperation and your willingness and desire to see us do a better job. When I went to Bill, Bill could have said to me, "John, you know, I'm not sure of this. It's too early. Give me some time." But he

didn't. He jumped on board. And when Bill and I together approached Paul O'Brien and Dan, who didn't have any choice, and Paul Tsongas, they all embraced the concept wholeheartedly. And you responded to them, and I think today is a reflection of the incredible talent of this state. We can pull together to create change. Whether we do it or not is up to Bill, it's up to me, it's up to Ted Kennedy and others. But it's also up to you. You cannot walk out of here and believe somehow this is it--you've made your contribution, that your two cents is in the pot. We've got to continue this effort to pull together. I will tell you that out of this transcript, I am going to personally see that when we meet with Secretary Brady in a few days, he hears what you have said regarding capital. If anything has come back to me out of this meeting today--and a lot has---it is the need to stop the free fall. More than anything, that depends on real estate valuation, on the bifurcation issue, and on our ability to get some money out there, to get some transactions under way. Then the commerce generally will begin to take off.

So, my gratitude to everybody, and I hope all of you will join with me in a special thank you to both Bill's staff and my staff. They have done a tremendous amount of work over the last month to help put this together and I am very, very appreciative to them. So if you would thank all of them for their work.

A final comment. I will be holding hearings under the auspices of the banking committee here in Massachusetts with respect to issues raised here today. So I hope many of

you, when contacted, will be willing to formally testify and be part of that process to carry this effort on from here. Thank you.

[End of Conference]

APPENDIX

Copies of the conference agenda and Marttila & Kiley's "Survey of Public Attitudes Toward the Massachusetts Economy" are reprinted here.

GROWTH PROSPECTS FOR THE MASSACHUSETTS ECONOMY

Governor William F. Weld and Senator John F. Kerry

World Trade Center, Boston
January 28, 1991

AGENDA

8:30 Welcome and Introduction to Conference

Greetings by Mayor Flynn
Introduction to Conference by Governor Weld
Opening Remarks by Senator Kerry

9:15-10:45 Plenary Session

"Stabilizing and Growing the Massachusetts Economy and How to Finance It"

Moderator: Daniel S. Gregory, Secretary
Executive Office of Economic Affairs

Remarks: Richard Syron, President
Federal Reserve Bank of Boston

Panelists: William Crozier, Chairman & President
BayBanks

Mr. John Gould, President & CEO
Associated Industries of Massachusetts

Mr. John Faherty, President
State Labor Council, AFL-CIO

Mr. Mitchell Kertzman, CEO
Powersoft Corporation

Ms. Sara Johnson, Economist
Data Resources, Inc.

10:45 Introduction of Morning Sessions by Paul O'Brien, President and Chief Executive Officer of New England Telephone

11:00-12:00 Concurrent Sessions

Session 1: **Manufacturing**, Beacon Hill #1, Lower Level
Discussion Leaders:
Charles Housen, CEO, Erving Paper Mills
Herb Ahrens, Vice-President for Manufacturing
Polaroid Corporation

Session 2: **Health Care, Biotechnology, Medical Equipment**, Federal #2, Mezzanine Level.
Discussion Leaders:
Dr. Mitchell Rabkin, President, Beth Israel Hospital
Gabriel Schmergel, CEO, Genetics Institute, Inc.

Session 3: **Banking and Financial Services**, Harborview #2, Upper level.
Discussion Leaders:
John Hamill, President & CEO, Shawmut Bank
James Morton, CEO, John Hancock Mutual Life Insurance Co.

Session 4: **High Technology--Electronics, Computers, Telecommunications,** Beacon Hill #2, Lower Level
Discussion Leaders:
Sheryl Handler, CEO, Thinking Machines
Ian Davison, CEO, Octocom Systems

Session 5: **Construction and Development,** Harborview #1, Upper level.
Discussion Leaders:
Thomas Flatley, President, Flatley Company
Joseph Nigro, President, Greater Boston Building Trades

Session 6: **Higher Education**, Federal #1, Mezzanine Level.
Discussion Leaders:
Elizabeth Kennan, President, Mount Holyoke College
Randolph Bromery, Chancellor, Board of Regents

Session 7: **Tourism and Services**, Back Bay #1, Mezzanine Level
Discussion Leaders:
James Daley, President, Daley Hotel Group, Inc.
Thomas Kershaw, President and Owner, Hampshire House

Session 8: **Energy and Environment**, Back Bay #2, Mezzanine Level
Discussion Leaders:
John Rowe, President & CEO, New England Electrical Systems
John Driscoll, CEO, HNU Systems, Inc.
Secretary Sue Tierney, Executive Office of Environmental Affairs.

12:15-1:30 Luncheon

Master of Ceremonies:
Paul O'Brien, Chief Executive Officer, New England Telephone
Introduction of Senator Edward Kennedy by Paul O'Brien
Remarks by Senator Kennedy
Introduction of John LaWare, Governor, Federal Reserve System, by Senator Kennedy
Address by Governor John LaWare

1:30-2:15 Synopsis of Morning Meetings presented by the Session Discussion Leaders
Introductions by Paul O'Brien
Introduction of Senator Paul Tsongas by Paul O'Brien
Introduction of Afternoon Sessions by Senator Tsongas

2:30-3:30 Discussion Sessions on Key Business Issues

Session 1: **Securing Capital To Finance Growth**, Harborview #1, Upper Level
Discussion Leader:
Lynn Browne, Senior Economist
Federal Reserve Bank of Boston
Panelists:
Congressman Richard Neal
Frederick W. McCarthy, The Boston Corporate Finance Group
Wesley Finch, The Finch Group
Ron Homer, Boston Chamber of Commerce
Charles Gifford, Bank of Boston

Session 2: **Making Government More Responsive to the Needs of Business,** Harborview #2, Upper Level
Discussion Leader:
Micho Spring, President, Boston Telecommunications
Panelists:
James Coull, James M. Coull General Contractors
Congressman Chester Atkins
Robert Crowley, Chairman, Smaller Business Association of New England
Roz Gorin, H.N. Gorin

Session 3: **Training and a Quality Workforce**, Federal 1 & 2, Mezzanine Level
Discussion Leader:
John Rennie, CEO, Pacer Systems
Panelists:
William Spring, Federal Reserve Bank of Boston
Professor John Dunlop, Harvard University
Dr. Peter Negroni, Springfield Schools Superintendent
Dr. Piedad Robertson, President, Bunker Hill Community College

Session 4: **Ensuring Continued Business Innovation**, Back Bay 1 & 2, Mezzanine Level
Discussion Leader:
Thomas Claflin, Managing Partner, Claflin Capital Management
Panelists:
Professor William Sahlman, Harvard Business School
William Warner, CEO, Avid Technology

Session 5: **Increasing Exports**, Beacon Hill 1 & 2, Lower Level
Discussion Leader:
Michael Campbell, CEO, Nova Technologies
Panelists:
Karen Brothers, CEO, Inmagic, Inc.
Thomas Dellert, Central Berkshire Plastics Association
Dr. Ghazi Darkazalli, Spire Corporation
Dr. Juan Amodei, AOI Systems

3:45	Synopsis of Panel Discussions, Auditorium Senator Paul Tsongas
4:30	Remarks by Governor William Weld Thank you by Senator John Kerry
5:00	Reception, Cityside Room, Upper Level

Massachusetts Hospital Association

A SURVEY OF PUBLIC ATTITUDES TOWARD THE MASSACHUSETTS ECONOMY

January 1991

Massachusetts Hospital Association

Stephen J. Hegarty
President

January 28, 1991

Dear Conference Participant:

The year ahead looms as one of the most difficult in our commonwealth's history. Beset by a slowing economy and serious fiscal problems, Massachusetts looks to a future that will be trying in the short term, but that ultimately holds the promise of great things.

It is appropriate that Governor William Weld and Senator John Kerry have convened today's conference on economic development in the spirit of true bipartisanship, because it is only through such cooperation -- working past the rivalries of party, and the conflicts that so often divide business, labor, and government -- that we can succeed in building a better future.

The Massachusetts Hospital Association recognizes that the most important message that can emerge from today's conference is also the simplest: We are all in this together. And we are all willing to work together to make Massachusetts better.

As one of the commonwealth's largest employers -- and as an integral part of the knowledge-based economy that is now emerging, both at home and abroad -- the hospitals of Massachusetts understand the vital importance of economic development at this crucial juncture. We also understand that for such efforts to succeed, they must rely on the energy and the support of the people of Massachusetts -- the commonwealth's greatest resource.

For that reason, we have commissioned Marttila & Kiley, Inc., to conduct a statewide survey to probe the attitudes and concerns of the Massachusetts public as they relate to the state's economy. We are sharing the results of this survey with conference participants, in the hope that they will help all of us better understand where the people of the commonwealth stand at this moment -- and where they hope to move in the months and years ahead.

Sincerely,

Stephen J. Hegarty

Stephen J. Hegarty
President

5 New England Executive Park, Burlington, MA 01803, (617) 272-8000

A SURVEY OF PUBLIC ATTITUDES TOWARD THE MASSACHUSETTS ECONOMY

The Massachusetts Economic Conference
January 28, 1991

Commissioned by:
Massachusetts Hospital Association

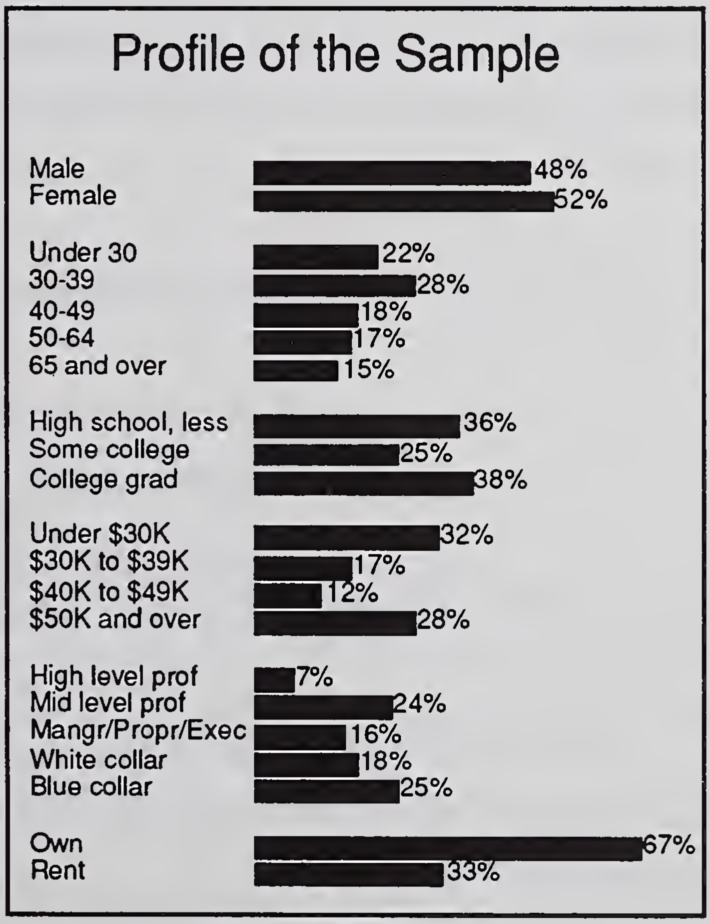
Conducted by:
Marttila & Kiley, Inc.

Introduction

The following report summarizes key findings from a recent survey of 807 adult residents of Massachusetts. The survey, commissioned by the Massachusetts Hospital Association, provides an up-to-date study of the attitudes and concerns of Massachusetts residents toward the state's economic problems.

Trained professionals working from a central, monitored location conducted interviews by telephone on the evenings of January 15 through 17, 1991. On the evening of January 16, interviewing was curtailed shortly after the commencement of Operation Desert Storm so as not to interfere with President Bush's televised address and subsequent news coverage. At that time, 730 of the study's interviews were completed; the remaining 77 interviews were completed on the following evening, January 17.

The survey sample, a representative cross-section of the commonwealth's adult population, was stratified by county, and within each county by telephone exchange. Respondents were selected using a random digit dialing procedure which assured that all residents with telephones -- both listed and unlisted -- were given an equal chance of being included in the sample. Only adults over the age of twenty-one were interviewed, and the survey data has been weighted slightly by age so that the final tabulations conform to known population figures in Massachusetts.



The chart to the right highlights major demographic characteristics of the sample. Note that gender quotas were maintained within each county, so that 52% of the sample is female and 48% is male.

Overview

For months, national surveys have consistently shown that the level of consumer confidence in New England is below -- at times well below -- the national average. The findings of this survey are completely consistent with that observation. Massachusetts residents are deeply worried about the short-term economic future -- worried for themselves, for their families and for the commonwealth as a whole.

Economists and business forecasters with whom we have shared these survey results have been struck primarily by the depth and breadth of the effects of the commonwealth's economic downturn.

The impact of this slump ranges well beyond the territory defined by official unemployment statistics. The commonwealth's jobless rate of 7.4% does not sufficiently convey the sense of economic dislocation which today confronts many Massachusetts residents.

The survey results show that:

- 11% of those polled say they have lost a job in the previous year;
- 12% have tried without success to find a new job; and
- Almost one-third have either experienced such dislocations themselves, or have witnessed their effects on a family member.

The central finding of this survey is therefore clear: The economic downturn has had a broad and far-reaching effect on a surprisingly large number of Massachusetts residents and families.

This impact has in turn had a tangible effect on public behavior. On average, Massachusetts residents report that they have begun to spend less. Many have deferred major purchases, vacations, and even some forms of medical treatment. Despite this retrenchment in the past year, they expect to spend and save even less in the coming year.

The economic downturn has also affected people's attitudes and expectations. A majority of survey respondents believe the state economy will not rebound until 1992 at the earliest. This contrasts with the expectation of many leading forecasters that the national economy will bottom out sometime this year.

In addition, an overwhelming majority report they would not be surprised by another major Massachusetts bank failure in the coming year. And fully one-quarter of those surveyed say they are thinking about moving to another state.

Clearly, the prevailing economic attitude in the commonwealth today is one of deep concern for the immediate future. And in their concern, the people of Massachusetts express definite views about what they expect of those who would lead them beyond their immediate fears and uncertainties. For the leaders of government and business, those views should carry considerable weight.

We can draw the following general conclusions from the survey findings:

Unemployment is the overarching economic concern occupying the thoughts of Massachusetts residents.

Although inflation, high taxes and budget deficits remain significant worries for the people of Massachusetts, their most palpable fear is of unemployment. The prospect that they, or a family member, might soon lose a job appears quite real for a significantly large number of poll respondents.

At such a time, it appears likely that Massachusetts residents will react to most economic news on the basis of its effect on employment. Public policies or business

decisions may be implemented to pursue other legitimate goals, such as reducing the state budget deficit or improving efficiency within a corporation. But they will enjoy public support mainly to the extent that they are perceived as improving the job picture in Massachusetts.

There is little reason to expect that Massachusetts consumers will be able to lead the commonwealth's economic recovery.

Based on the decisions already made by the state's residents, it is evident that consumer spending will not be the key to reversing the current economic downturn.

A significant percentage of residents have already deferred many forms of major spending, putting off the purchase of homes, automobiles, major appliances and vacations, and delaying elective medical treatment. Yet they are still looking to reduce their levels of personal debt; they expect to pay down their charge cards in the coming year and reduce the amount they owe on home equity loans. They also expect to save less -- not because they plan to spend more, but because they want to reduce their current indebtedness.

The picture that emerges is one of a state on economic hold for at least the coming year. Economists and business forecasters may disagree on the extent to which increased consumer spending might or might not help propel the Massachusetts economy out of its current slump. But there is little disagreement with the assertion that -- regardless of the theoretical importance of consumer spending -- it is not going to emerge as a real economic force in Massachusetts this year.

The views of many Massachusetts residents are sharply at odds with conventional economic wisdom, particularly with regard to the state government's role in economic affairs.

The analysts with whom we shared these results all expressed surprise at the extent to which Bay Staters tend to define the economic downturn as a Massachusetts phenomenon, rather than as the product of larger economic forces.

Massachusetts residents express the strong belief that the commonwealth's economic problems: a) are the result of past mistakes by the state's political leaders; and, perhaps for that reason, b) can and should be solved by actions taken at the state level.

Although they do not totally dismiss the effect of national economic trends on the state economy, residents place a far heavier emphasis on events and policies determined at the state level. They believe by an overwhelming margin that state policies have a greater impact on the Massachusetts economy than do the policies of the federal government.

In discussing the measures they believe would be most effective in restoring the commonwealth's economy to health, they give comparatively short shrift to such factors as reduced interest rates, lower oil prices, and increased consumer spending. By contrast, they express great faith that the balancing of the state budget would be effective in spurring an economic turnaround.

Economic analysts agree that, realistically, such actions on the state level can have only a limited effect in bringing about the commonwealth's recovery. No state is an economic island; all are subject to national economic currents and to the results of macroeconomic decisions made by federal policy-makers.

But those realities do not appear to register with most Massachusetts residents. They have plainly defined the current economic downturn as a problem "made in Massachusetts." With consistent logic, they are convinced that the problem's solution must be similarly home-grown.

Consequently, state decision-makers face a set of public expectations that do not necessarily jibe with the economic facts at hand. These expectations argue that any successful strategy of economic recovery must go hand-in-hand with a plan to restore public confidence in the commonwealth's political leadership.

The people of Massachusetts expect state government to play an activist -- if vaguely defined -- role in the commonwealth's economic recovery.

Massachusetts residents do not accept the argument that state government should defer to the private sector, and let business take the lead in crafting an economic recovery. Even though they believe that state government created today's problem, they still expect it to act decisively in producing a solution.

Yet this strong demand for decisiveness and action is muddled by the fact that the public cannot itself decide which actions state government ought to take. Poll respondents split evenly on the question of whether the state could best create jobs by spending money to attract new businesses, or by cutting back to reduce taxes and improve the business climate.

In general, Massachusetts residents seem receptive to a wide variety of proposals for state action to create jobs. With one notable exception -- the public is unwilling to attract new business by relaxing environmental standards -- they express approval for all the economic-development ideas presented to them in our survey.

The public does exhibit a slight preference for the use of public incentives rather than direct government spending. But their overarching preference is much more basic: they want <u>action</u> rather than inaction.

This demand for action will create pressures for state decision-makers. But it will also create genuine opportunities. In concert with the leaders of business, industry and labor, as well as with federal officials, state leaders have an opportunity to move boldly, if they so choose.

--John Marttila
--Tom Kiley

January 28, 1991

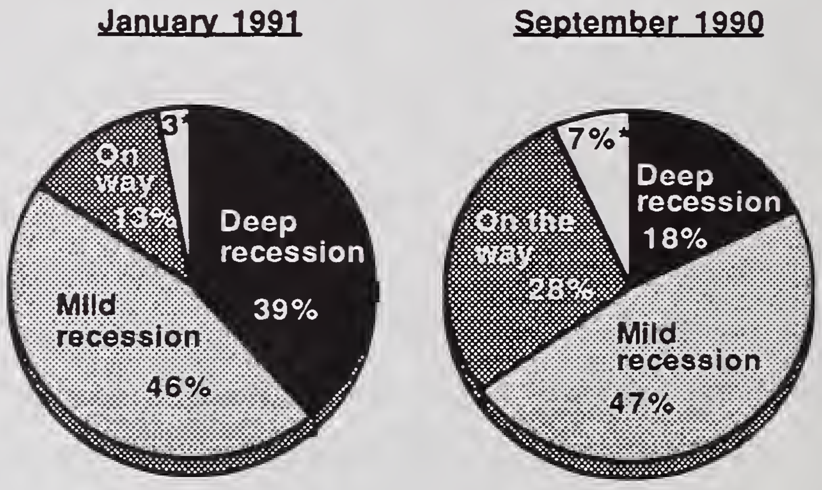
Summary of Findings

The vast majority of Massachusetts residents believe the state is in a recession.

An overwhelming majority of Massachusetts residents believe the state is facing serious economic difficulties today. Eighty-five percent say we are in the midst of a recession, compared with 65% who thought so in a previous survey, conducted in September. Not only do more people believe a recession is upon us, but a considerable percentage also think that the downturn is serious. Nearly four-in-ten residents (39%) describe the current recession as a "deep" recession. In September, less than half as many (18%) characterized the economic slowdown that way.

The Recession Deepens

Would you describe the state's economy as being in a deep recession, a mild recession, on the way to a recession, or not in a recession?



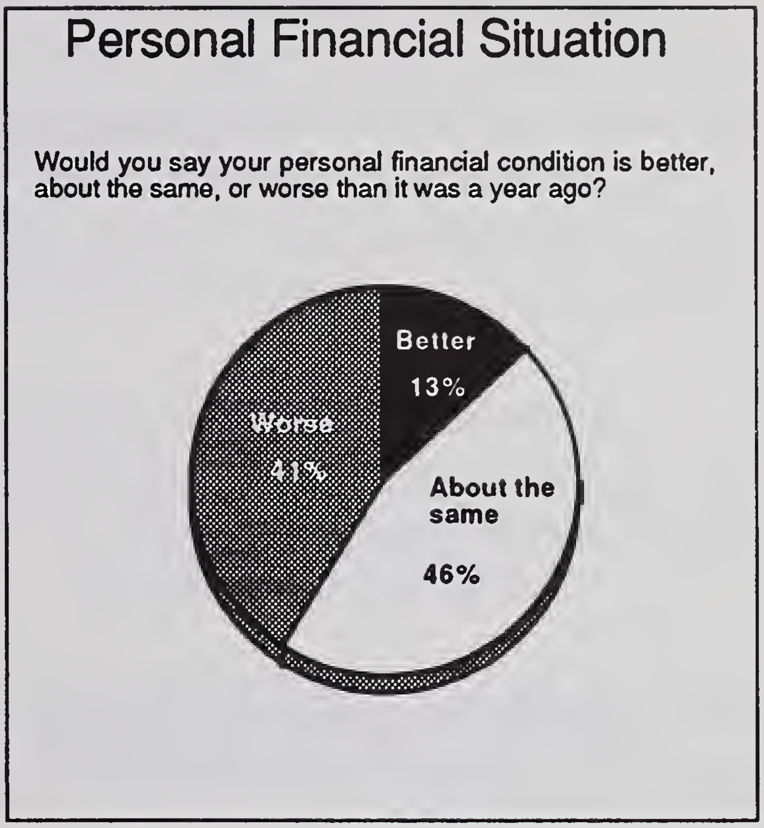
* No, Not Sure

Personal financial conditions have stagnated or deteriorated in the last year.

The public has been feeling the effects of this downturn on a personal level for the past year. The financial condition of close to nine-in-ten (87%) Massachusetts residents has either remained stagnant (46%) or deteriorated (41%) since the beginning of 1990. Only a small minority (13%) report that their personal fortunes improved over the last twelve months.

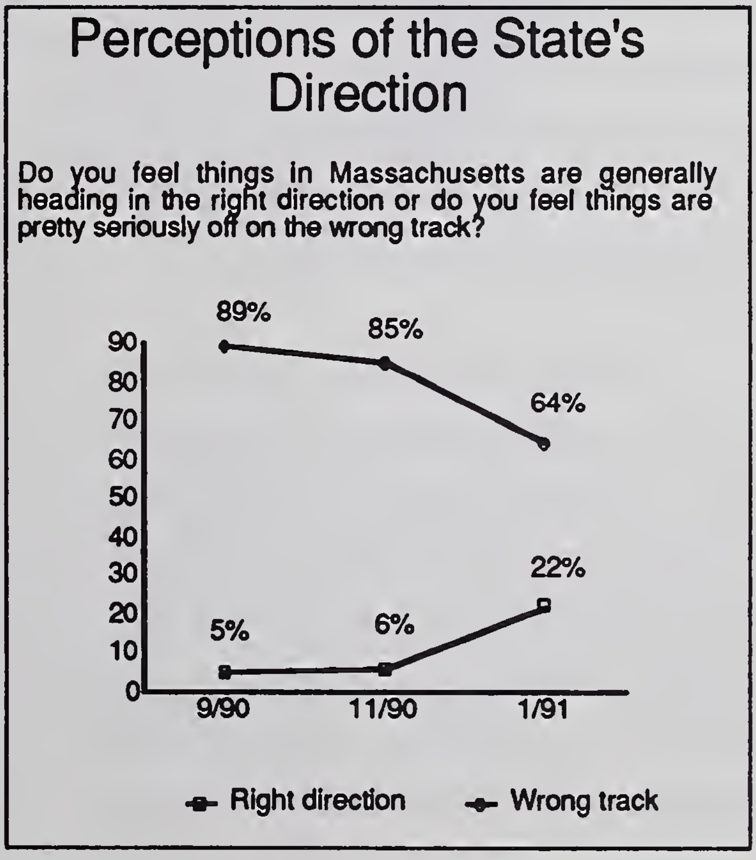
The roughly one-third (32%) of Massachusetts households that earn less than $30,000 a year have been hit hardest by the recession. Only 7% in the under $30,000 income category say they are better off than they were a year ago, while nearly half (48%) say they are worse off.

Although the less affluent have been affected the most by the downturn, even upper-income households are reporting some deterioration in their financial condition. Among those residents making more than $50,000 a year, 18% say they are doing worse.



Despite the changes on Beacon Hill, the public remains pessimistic about the state's direction.

Despite the introduction of a new administration on Beacon Hill -- which traditionally prompts at least a temporary honeymoon of optimism and good feeling about the state's direction -- the public's overarching concern about the economy appears to be fueling anxiety about Massachusetts' present course. Only one-in-five residents (22%) say the commonwealth is heading in the right direction, while 64% believe that we are seriously off on the wrong track.

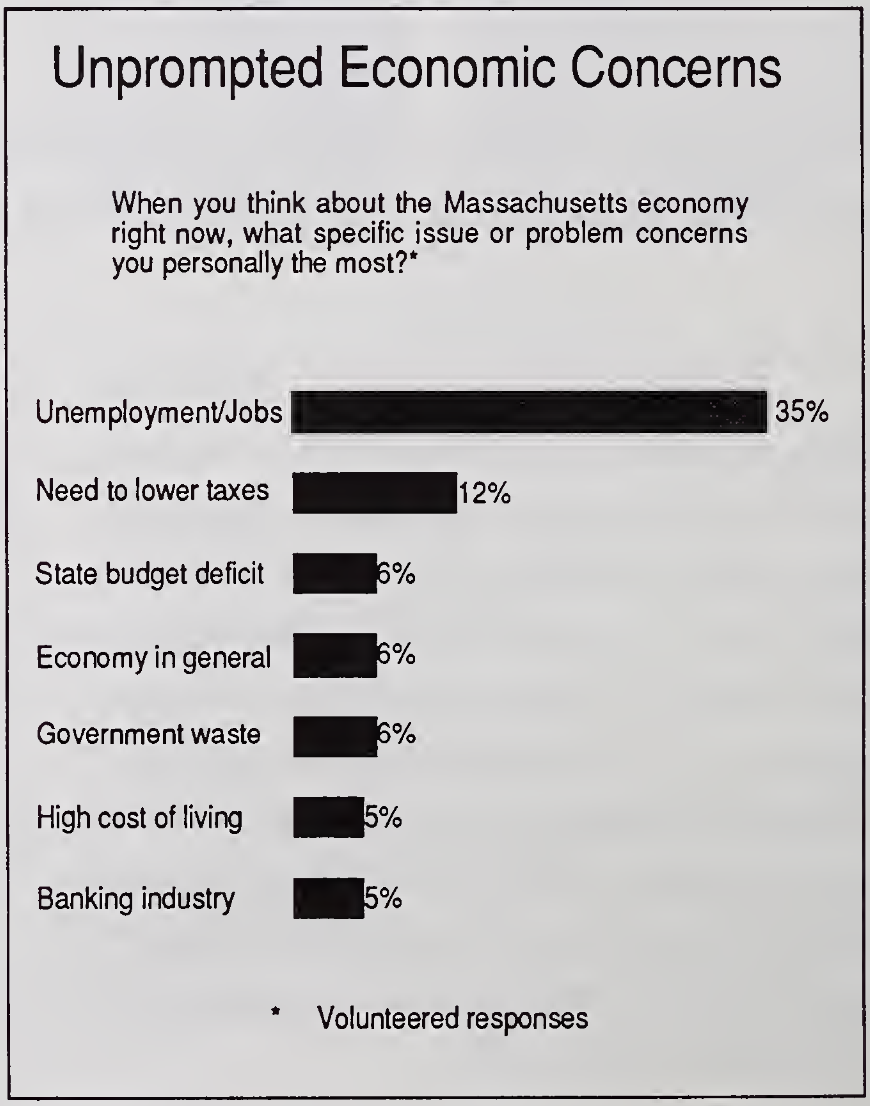


This does represent a notable improvement from the extraordinary figures recorded before the November elections, when as many as nine-in-ten (89%) Massachusetts residents felt that the state was off on the wrong track. But the fact that nearly two-thirds of the state's residents still believe that we are heading in the wrong direction is evidence of the public's fundamental pessimism about the immediate future.

To the extent that their personal attitudes about the economy will influence their actions as consumers, Bay State residents are clearly girding themselves for at least a year of slow, tough times.

The public's concern about the economy can be reduced to one word: jobs.

When asked to volunteer the economic issue they worry about the most, more than one-of-every-three Bay State residents (35%) mention unemployment. Joblessness far outnumbers any other issue offered by the public. The next most important problem, cited by 12% of Massachusetts residents, is the need for lower taxes.

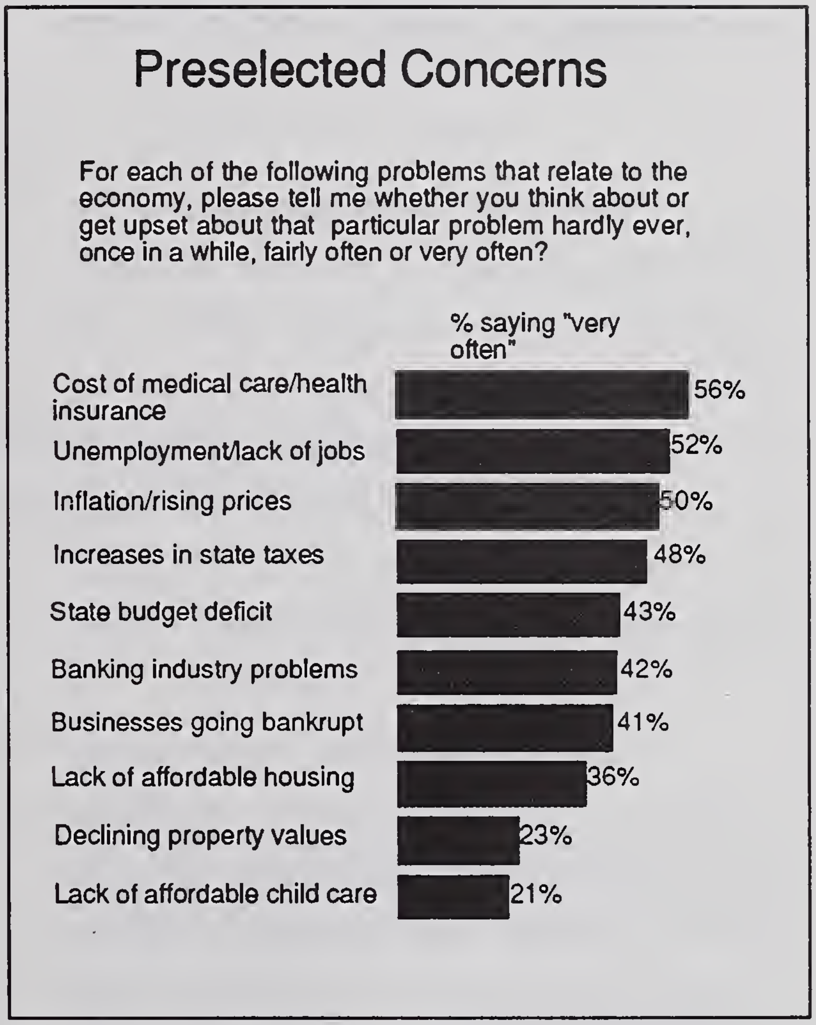


When presented with a list of nine other economy-related issues, unemployment and the lack of jobs is also selected by more than half (52%) of Bay Staters as an issue that they worry about "very often." Certain demographic groups were more likely than the

general public to express this high level of concern, including:

- residents in the southeast part of the state (59%);
- women age forty and over (59%);
- those people making less than $40,000 a year (59%);
- white-collar workers (57%).

The public's apprehension about unemployment probably stems in part from the fact that job losses have hit close to home for a significant number of state residents. Close to one-third (29%) report that either they or a member of their immediate family has lost a job within the past year as a direct result of the economic slowdown.



Two other items that top the state's economic "worry list" are the cost of medical care and health insurance, which 56% of the public thinks about or gets upset about very often, and inflation or rising prices, which 50% of Massachusetts residents say they worry about very often. Both of these issues are of particular concern to elderly residents.

By way of comparison, 42% of the state's residents say they worry about problems in the banking industry -- a relatively low figure considering that the MHA survey was conducted only a week after the collapse of the Bank of New England, the second-largest financial institution in the region. Of course, this lower level of concern may reflect the success of the FDIC's move to restore confidence in the New England banking system.

For the state's many renters, the need for more affordable housing remains a major economic problem. Exactly half of all renters say they worry about this problem very often. And the Bay State's traditional sensitivity toward taxes is still very much in evidence, with almost half (48%) of all residents saying they worry about increases in state taxes very often.

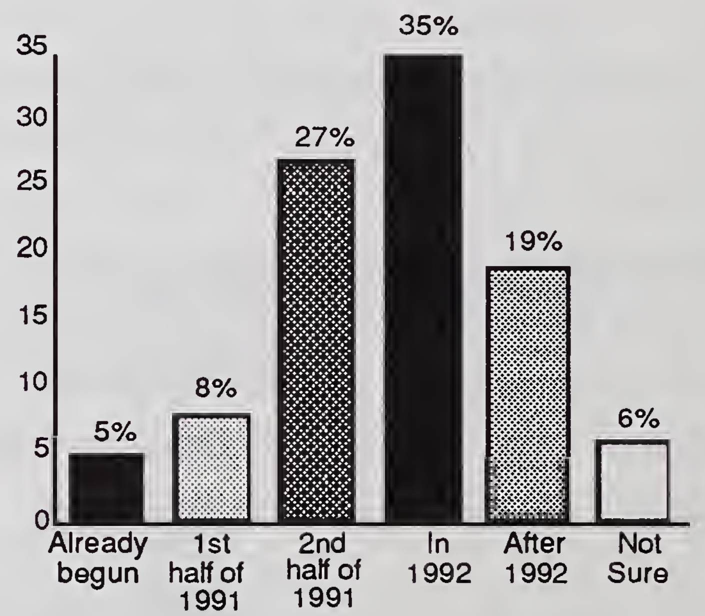
Massachusetts residents are expecting a long, tough 1991.

The people of Massachusetts are hunkering down for at least another year of tough economic times. A majority (54%) do not expect the current recession to bottom out until sometime in 1992 at the earliest. One-in-five residents (19%) think the state will not rebound until after 1992.

This short-term pessimistic outlook is shared by upper-, middle-, and lower-income residents. A majority at every income level believe that the state's economy will not turn around for at least another twelve to eighteen months.

Bracing for a Long Year

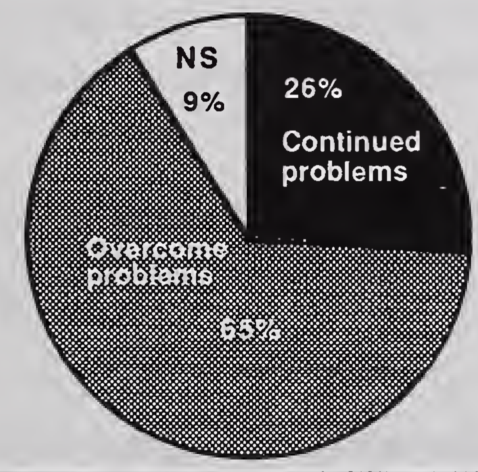
Thinking again about Massachusetts, at what point do you expect that the state's economy will bottom out and begin to rebound again? Just give me your best guess -- do you feel this has already begun to happen, will it happen in the first half of 1991, the second half of 1991, sometime in 1992 or sometime after 1992?



The public's basic lack of confidence in the economy is confirmed by its expectations regarding personal finances. Only one-in-three Bay Staters (32%) predict that their personal circumstances will be better a year from now than they are today. A majority look for things to either stay the same (40%) or get worse (22%).

Optimism for the Longer Term

Looking ahead three or four years from now to the mid-nineties, do you think it is more likely that the state's economy will continue to have problems and still be in a weakened condition, or is it more likely that the state's economy will overcome its problems and come back strong?



For the longer term, however, Massachusetts residents are more hopeful. By a 65% to 26% margin, they say the state will overcome its problems and come back strong in the mid-1990s. Those most likely to be bullish about the commonwealth's long-term prospects are:

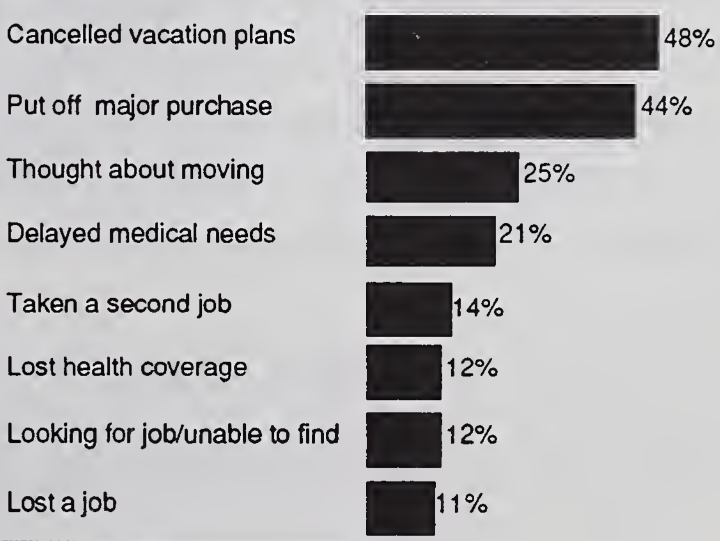
- men over age forty (71%);
- college-educated men (70%);
- professionals (69%).

The recession has already imposed a huge personal cost on Massachusetts residents and their families.

Official unemployment statistics do not begin to measure the human cost that has already been exacted by the state's economic downturn. More than one-in-ten residents (11%) confirm that they have lost a job in the past year as a direct result of the slowdown. A similar proportion (12%) say their efforts to find new work during the past year have met only with frustration and failure. In addition, another 20% of all residents say that someone in their family has lost a job to the recession during the past year. All told, nearly one-third of the state's households have endured employment disruptions at the hands of this recession.

Effects of the Economic Slowdown

I am going to mention some ways in which the economic slowdown in Massachusetts may have affected you. For each item I mention, answer yes only if you can say the economic slowdown has definitely affected you in this way.



The recession has also forced 14% of the state's residents to take a second job during the last twelve months in order to make ends meet. There is particular economic pressure on young families. One-in-four (25%) respondents living in a household that includes a young child have taken a second job.

In a related finding, one-in-eight residents (12%) have seen their health insurance coverage reduced or completely eliminated in the past year. Younger and less affluent families report the highest incidence of lost health insurance coverage:

- 16% of those earning less than $40,000 a year have lost health coverage, compared with 8% of those earning more than $40,000;

- 15% of those residents under age forty have lost health coverage, compared with 10% of those over age forty;

- 15% of blue-collar workers have lost health coverage, compared with 10% of professionals.

Not surprisingly, the state's unemployed residents are most at risk. Nearly one-third (31%) of those currently without a job have lost all or part of their health insurance coverage

A further gauge of the extent of economic dislocation in the state can be seen in this finding: 21% of all residents have deferred needed dental or medical care because of their financial problems. Fully one-in-four women in the state say they put off having their medical or dental needs taken care of in recent months. The figure is even higher among these groups:

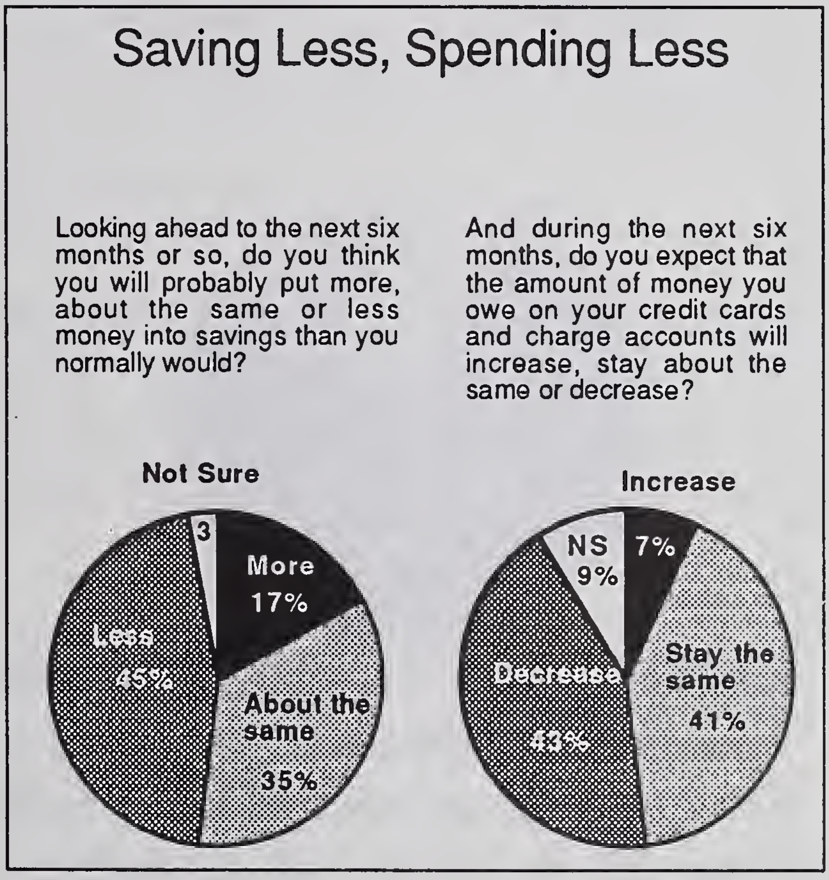
- women under age forty (31%);
- households with small children (30%);
- residents earning less than $40,000 per year (26%).

Behind the foregoing statistics are hundreds of thousands of Massachusetts families struggling to adjust to some harsh, new realities. A total of 53% of all residents report that either they or a member of their family have lost a job, been forced to take a second job, or lost health insurance coverage in the past year.

Bay Staters are responding to the recession by cutting back sharply on their own personal spending.

Consistent with their somber assessment of the economic state of affairs, Massachusetts residents are dramatically reducing their consumption. Nearly half (48%) say they have cancelled or cut back on their vacation plans in the past year, and 45% say that they have put off a major purchase (such as a car or an appliance) at least for a while. Combining the results of those two questions shows that fully 70% of the state's consumers have already scaled back their own spending on big-ticket items.

Significantly, these reductions in personal spending are occurring throughout all sectors of the population, not just those groups hardest hit by the recession. Even among residents who report that they are doing better financially now than they were a year ago, 33% are cutting back or cancelling their vacations and 30% are postponing major purchases.



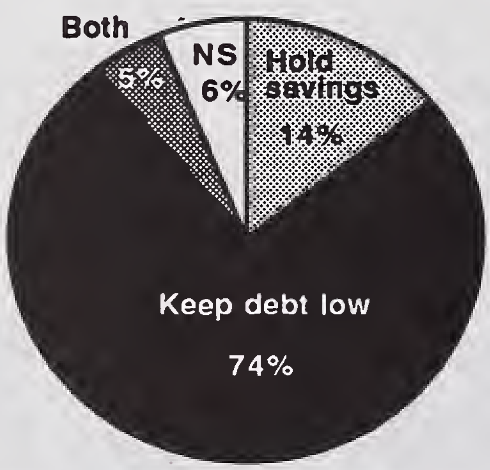
In another sign of reduced spending, a plurality of all Massachusetts residents (43%) say they expect to decrease the amount owed on credit cards and charge accounts in the next six months. Among affluent residents -- those earning more than $40,000 a year -- nearly half (47%) say they will decrease their debts.

A majority of those residents who have home equity loans or other lines of credit are also planning to reduce their debt load. Fifty-two percent predict they will reduce the amount of their indebtedness during 1991. Only 8% expect to increase their outstanding debt.

In addition to spending less, Massachusetts residents expect to save less during the next several months.

Recession Strategy: Keep Debt Low

Which approach do you feel is better -- to hold on to your savings, even if you have to increase your credit card and charge account balances or to keep your credit card and charge account debts as low as possible, even if it means having less savings?

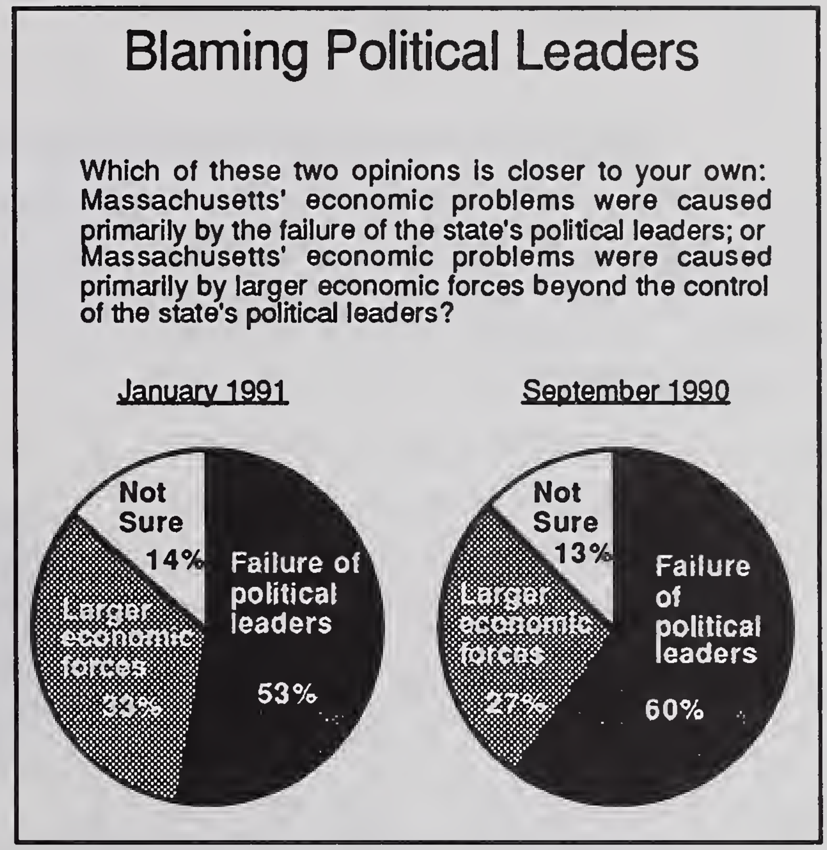


Besides spending less, the state's consumers plan to save less in coming months. A plurality of 45% say they will probably put less money into savings than normal between now and July, compared with only 17% who feel they will be able to put more money into savings.

Many Massachusetts families are earning less today than they were earning a year or two ago. For them, reduced savings is an unavoidable necessity. Other families, however, will be putting less into savings -- if not actually taking something out of savings -- as a matter of financial strategy. By an overwhelming margin of 74% to 14%, the state's residents are inclined to use savings, if possible, to reduce debt, rather than extend debt in order to maintain savings.

Both in terms of their spending and saving patterns, the predicted behavior of Massachusetts residents in the months ahead appears destined to further deepen the recession. They not only plan to put less money into the economy, they also plan to make less available for capital investment.

A majority of the public believes that state government is to blame for the recession.



One of the most distinguishing aspects of the current recession is that the public continues to feel it is more the result of political failure than larger economic conditions.

In the public's eye, the current downturn began with the state budget crisis that set in soon after the 1988 presidential election. But now, more than two years later, a majority of Massachusetts residents continue to view the commonwealth's economic difficulties through a political prism -- despite the fact that much of the rest of the country has joined us in recession and a new administration has assumed the reins of state government.

Fifty-three percent of Massachusetts residents say they still believe the recession has been caused primarily by the failure of the state's political leaders, rather than by larger economic forces beyond the control of the government. Although this figure has declined somewhat since before the 1990 elections, it is still unusually high.

Those most likely to blame the recession on the shortcomings of our political leadership include:

- people without a college degree (58%);
- men under age forty (59%);
- self-described conservatives (60%);
- blue-collar workers (61%);
- the unemployed (62%).

College graduates, senior citizens, liberals and those earning more than $75,000 a year, on the other hand, are the most willing to concede the effect on the state of larger economic forces.

The public's underlying perception that our problems are as much political as economic points up one of the challenges facing the Weld administration. Rebuilding confidence in the state's political system may be as important to Massachusetts' economic health as reversing negative trends in unemployment, inflation, and the banking system.

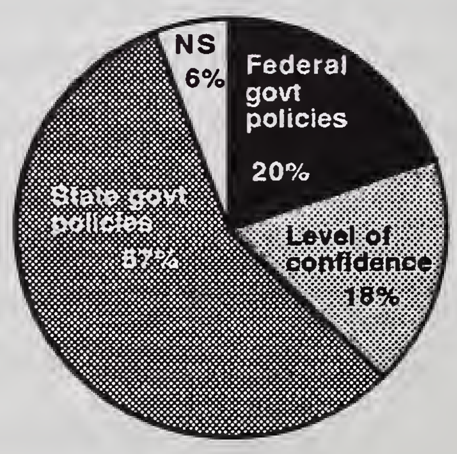
State policies are also considered the most important factor affecting the economy.

Looked at another way, a solid majority (57%) of all residents think that the policies of the state government are the most important factor affecting the Massachusetts economy. Only 20% say the policies of the federal government have a greater impact on the state, and 18% say consumer confidence is the most important factor.

Again, people without a college degree and men under age forty are the most inclined to see state government policy as having the greatest impact on the commonwealth's economy.

Residents See Beacon Hill as the Key

Which of these three factors do you feel has the greatest impact on the performance of the state's economy -- the policies of the federal government; the level of confidence of the state's consumers; or the policies of the state government?



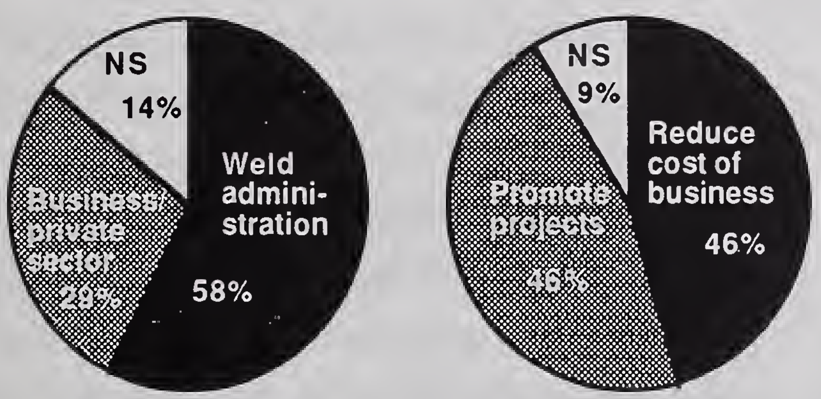
The public's focus on the role of the state is also reflected in their feelings about which economic problems they consider to be the most serious. More than 70% of all Massachusetts residents say they think or worry about the state budget deficit or increases in state taxes either very often or fairly often.

The public believes the new administration should take the lead role in promoting economic growth.

Given their belief in the economic efficacy of state government, it should come as no surprise that Massachusetts residents look to Beacon Hill to help lead us out of recession. By a margin of 58% to 29%, the public thinks that the new Weld administration -- as opposed to business and the private sector -- should take the leading role in rebuilding the state's economy.

However, residents are evenly divided (46% to 46%) about whether the best way to rebuild the economy is to reduce the cost of doing business here by cutting back taxes, state spending and government regulations, or if the best idea would be for the government actively to promote new business and major construction projects, even if that means increasing state spending.

Proper Role of State Government



Do you think the new Weld administration should take the leading role in rebuilding the state's economy, or do you think that business and the private sector should take the leading role?

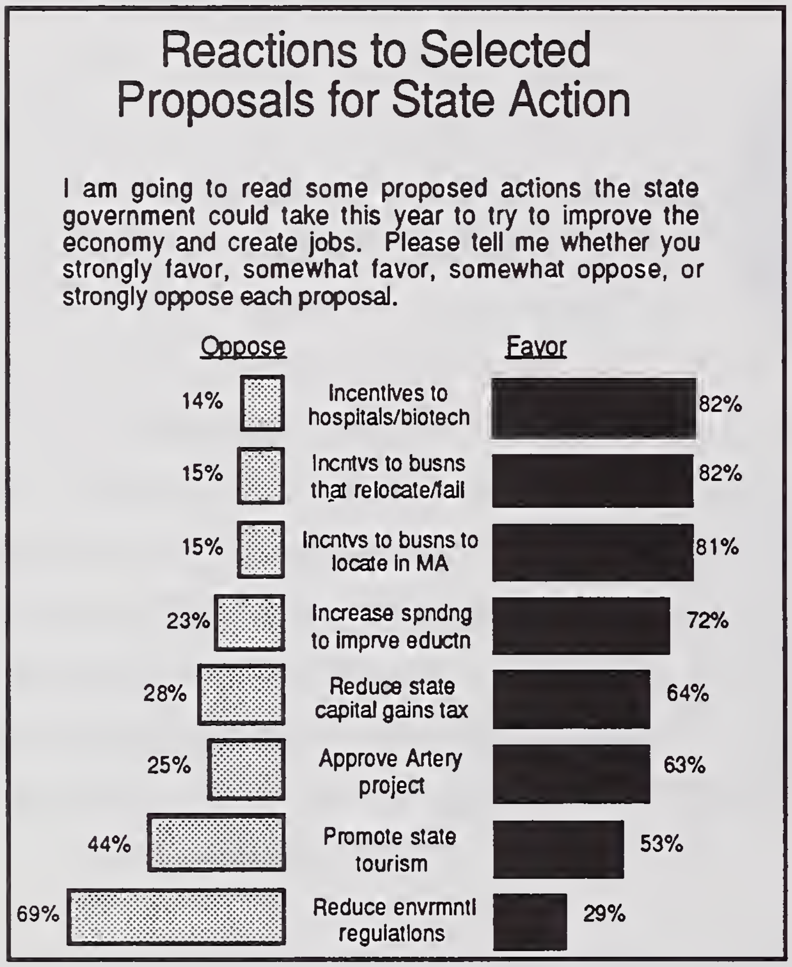
Do you feel the best way for state government to help rebuild the economy is to reduce the cost of doing business here by cutting back taxes, spending and regulations; or to actively promote new business and major construction projects, even if it means increasing state spending?

Those demographic groups most likely to favor active government promotion of new businesses include:

- self-described liberals (54%);
- elderly residents (54%);
- those earning less than $30,000 a year (52%);
- college-educated women (51%).

Conversely, those who are most likely to think that the role of the state should be simply to reduce the cost of doing business here include conservatives (55%), men under age forty (56%), and people earning more than $75,000 a year (58%).

When asked their opinion of some specific actions the state government could take in the coming year to try to improve the economy and create jobs, Bay Staters are more likely to favor indirect spending in the form of financial incentives, tax incentives, and abatements, rather than direct spending.



The notion of offering financial incentives to hospitals and biotechnology companies generates the greatest support, with 82% of Massachusetts residents saying they would either strongly favor or somewhat favor such action. More than four-out-of-five residents also favor providing tax incentives or abatements to businesses that would otherwise fail, relocate out of state, or not locate in Massachusetts in the first place.

Two areas, environmental protection and public education, enjoy widespread support across the political spectrum. By a margin of 69% to 29%, the public opposes reducing environmental regulations on new industry and business. Even those demographic groups who favor a general scaling back of government regulations -- including conservatives, younger men and upper-income residents -- oppose by decisive margins cutting back on environmental protection measures.

A solid majority of residents (72%) -- and of every key demographic group -- also favors increasing state spending to improve public education, even if it means cutting back on other important needs. Those most supportive of increased spending in this area are college-educated women and women under age forty.

The public firmly rejects the notion that the state's economic problems are psychological, or have been exaggerated by the media.

An overwhelming majority (70%) of Massachusetts residents believe that the current economic downturn is indeed as bad as it seems, rather than the product of failing consumer confidence or the psychological tendency to see things as worse than they really are.

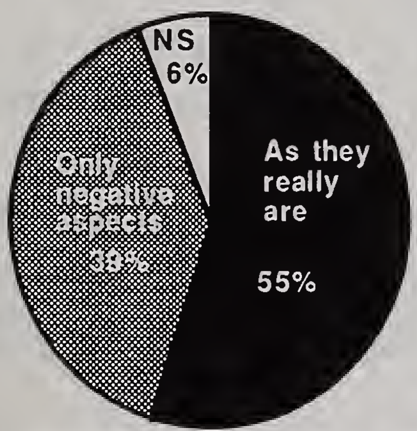
While all demographic groups strongly contend that the state's economic problems are real, this view is especially prevalent among women, particularly those under age forty.

Economic Decline: Real Vs. Psychological

Which of these opinions is closer to yours: a major part of our economic problems is psychological, with people losing confidence and feeling things are worse than they really are; or for the most part, our economic problems are not really psychological, and conditions are as bad as people think they are?

Judging Media Coverage of the Downturn

There has been a lot of media news coverage on the state's economy lately. In general, do you feel the news media has been reporting economic conditions as they really are, or do you feel the news media has made the economic conditions seem worse that they really are by reporting the negative aspects of the economy so heavily?



Similarly, only 39% fault the media for stressing bad economic news, while 55% feel that the press has been reporting the state's condition accurately. Certain groups were more likely than the public at large to fault the media, however, including conservatives, older men, and men without a college degree.

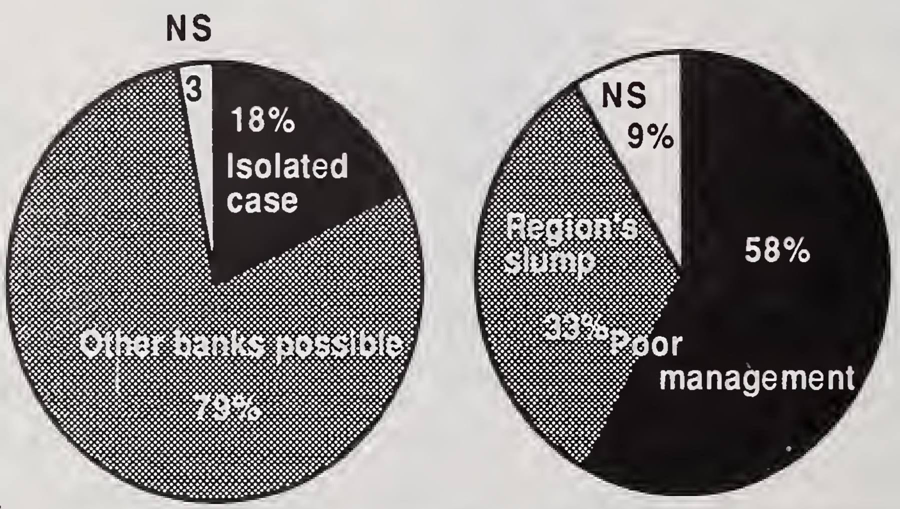
Four-out-of-five Massachusetts residents expect that there will be further bank failures in the coming year.

While a majority (58%) of Bay Staters blame the recent Bank of New England collapse on poor management, rather than larger economic forces, four-out-of-five (79%) state residents believe there is a good possibility that other major banks in Massachusetts will fail in 1991.

Bank of New England

The federal government recently seized control of the Bank of New England. Do you think the bank's failure was an isolated case, or do you think there is a good possibility that other major banks in Massachusetts will fail in the coming year?

Is it your impression that the Bank of New England failed primarily because of poor management or primarily because of the region's economic slump?



When asked how much confidence they have in their own bank, 41% of the state's residents say a great deal, another 41% say a fair amount, and 12% say only some.

Post-graduates and women -- especially those who have a college degree or are under age forty -- are particularly pessimistic about the strength of the region's financial institutions. They are more inclined than the general public to expect further bank failures in the next twelve months, and are more likely to have less confidence in their own bank.

Finally, nearly one-in-ten residents (9%) report having recently withdrawn money from a Massachusetts bank because they were concerned about the bank's financial stability. About one-third (31%) of this subgroup were Bank of New England customers.